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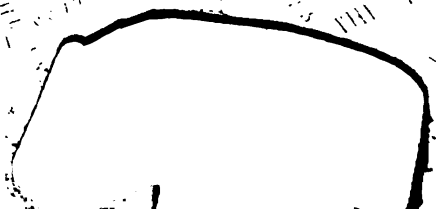
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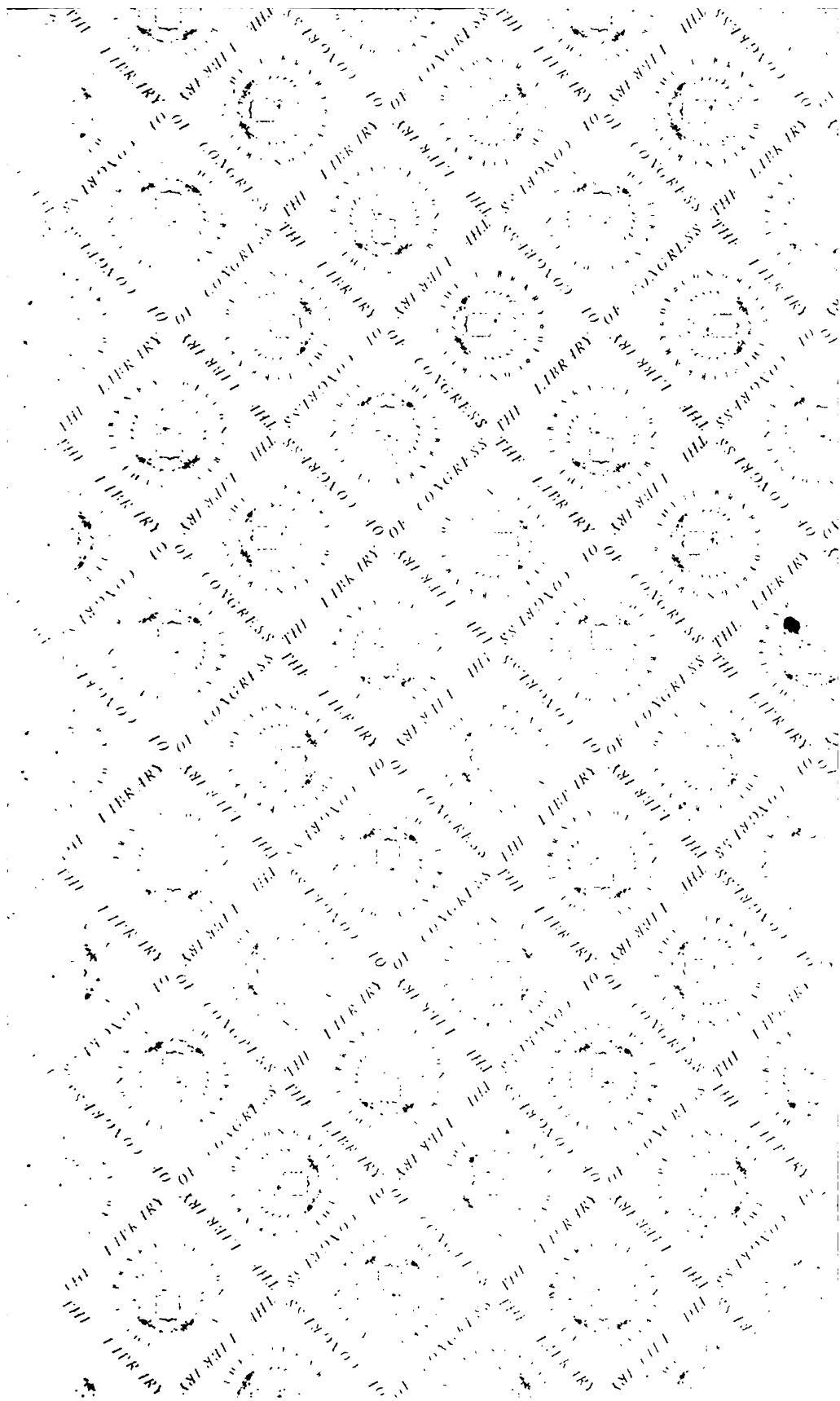
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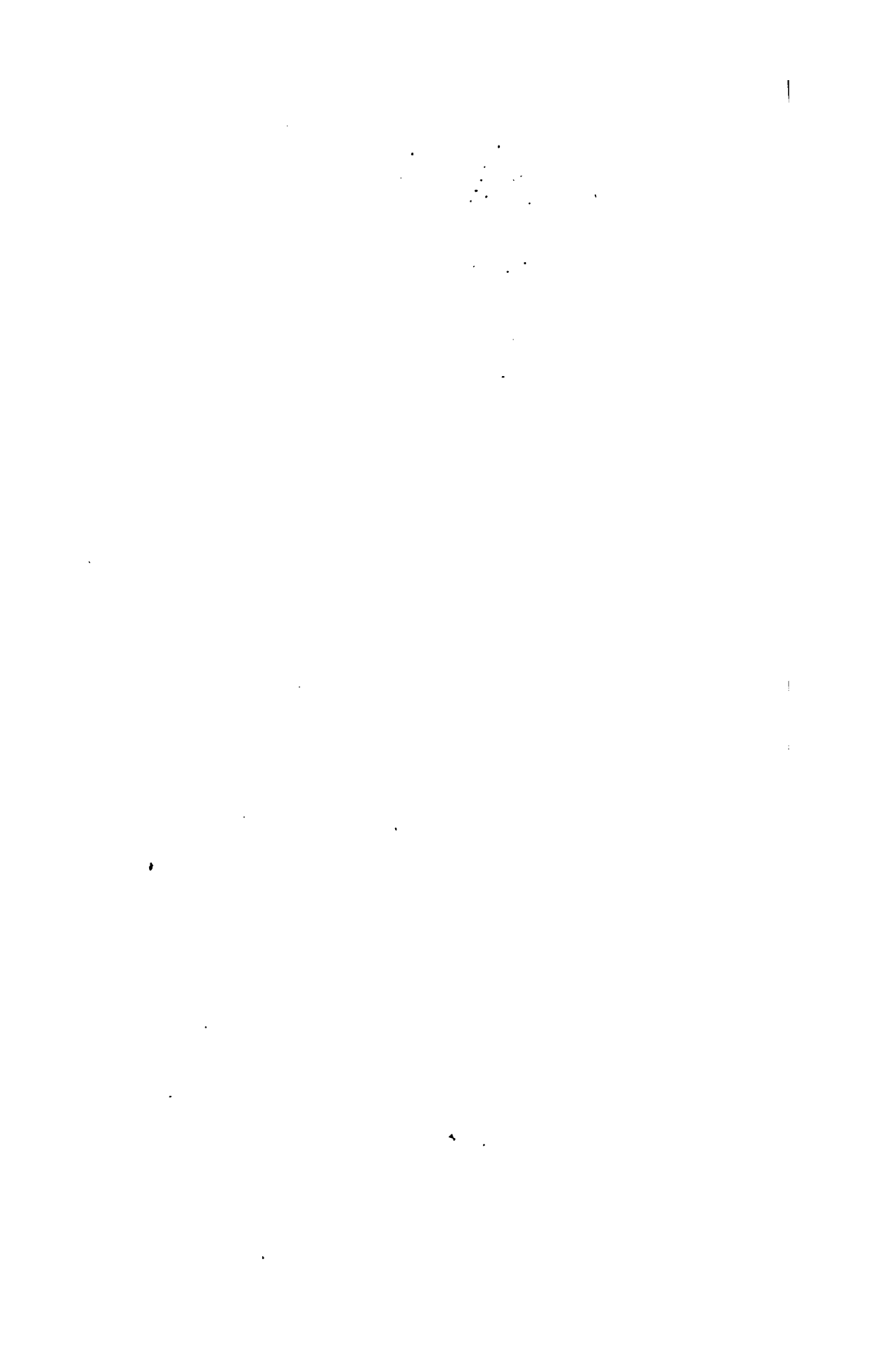
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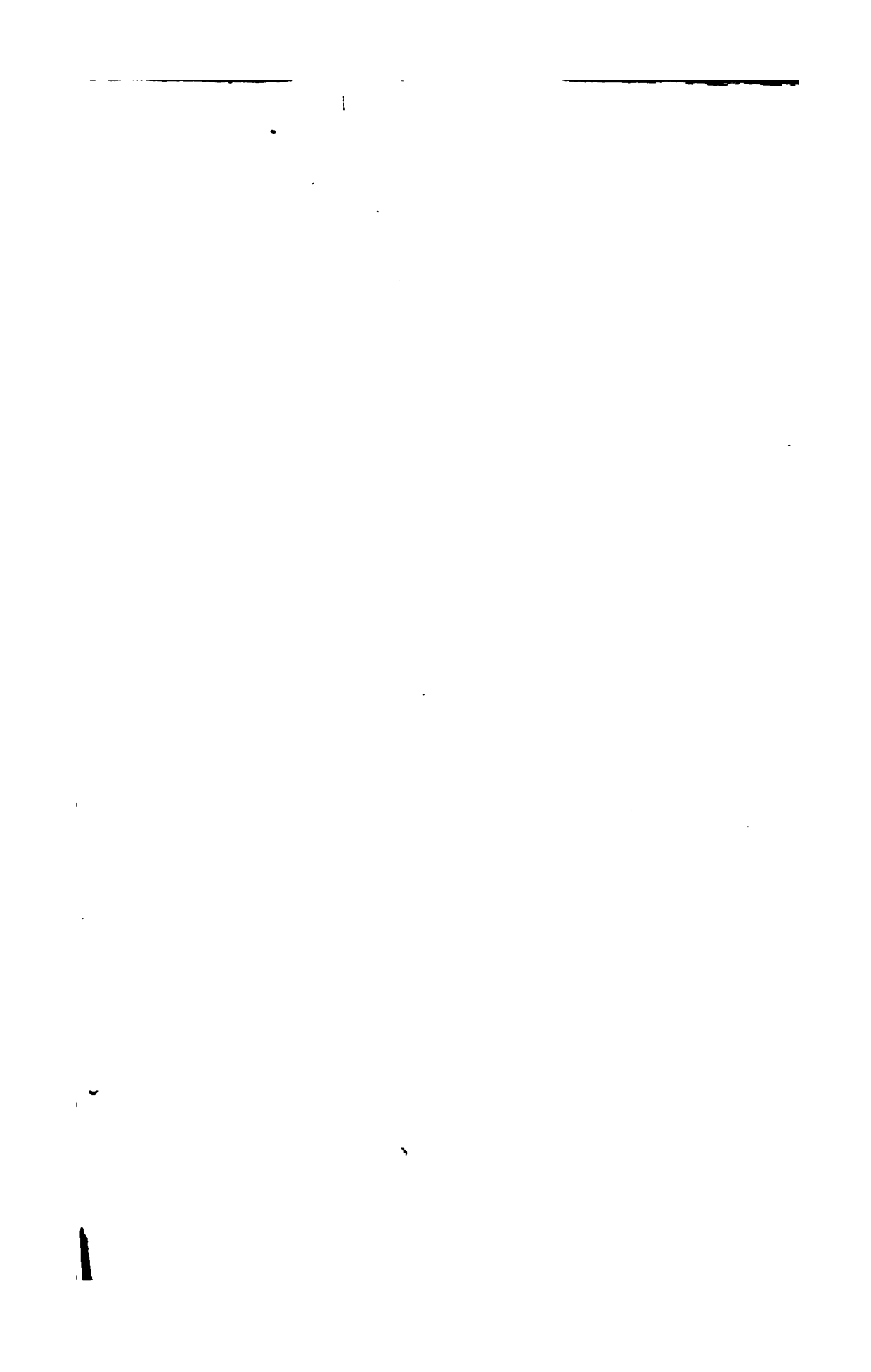
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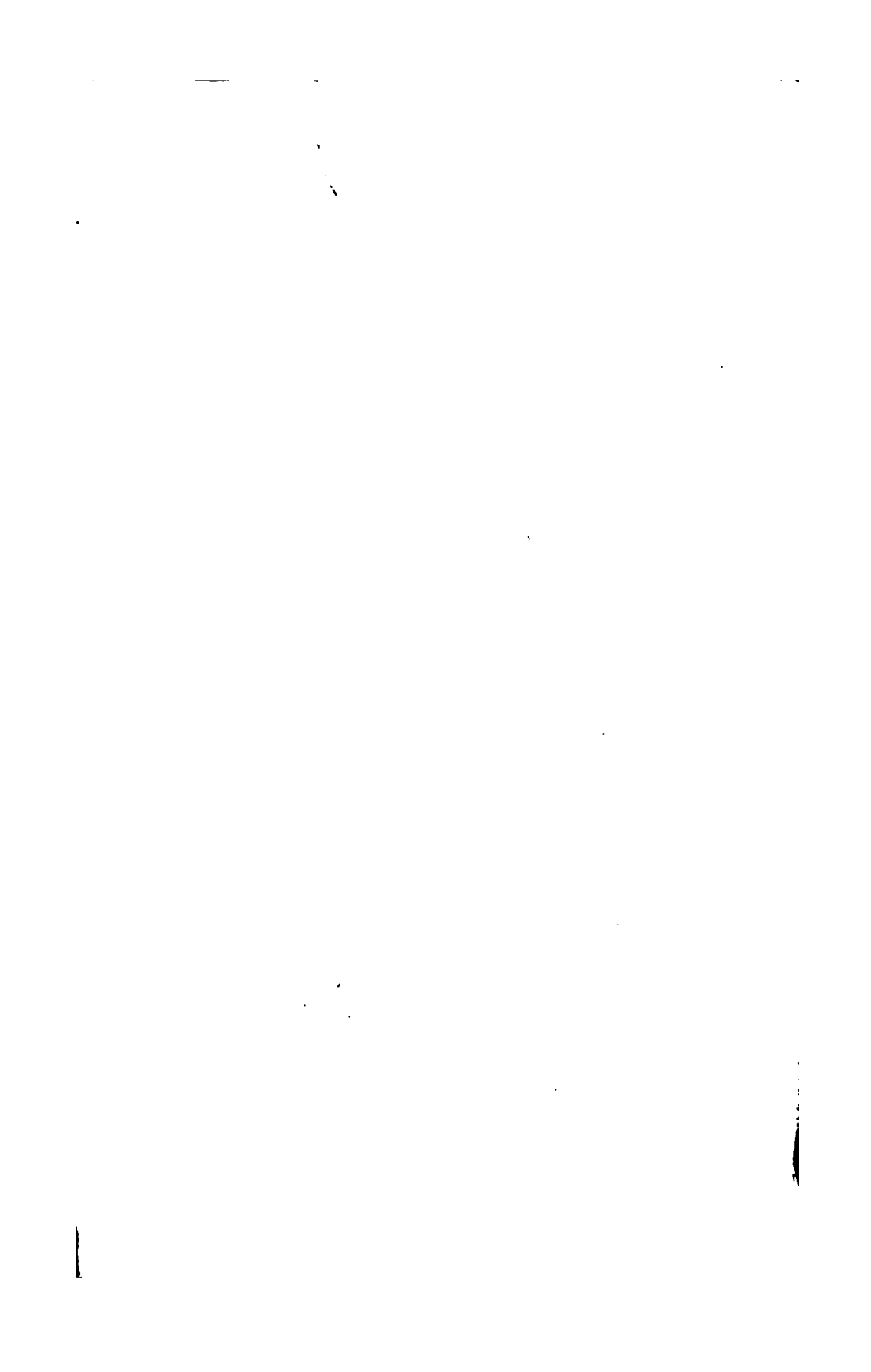












HEARINGS AND ARGUMENTS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY

OF THE

HOUSE OF REPRESENTATIVES

ON

PROPOSED CHANGES IN THE CURRENCY SYSTEM
OF THE UNITED STATES.

PREPARED FOR PUBLICATION AND INDEXED BY

FRANK ROE BATCHELDER,

CLERK OF THE COMMITTEE.

FIFTH-FIFTH CONGRESS, SECOND SESSION.

1897-98.

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1898.

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COMMITTEE ON BANKING AND CURRENCY.
FIFTY-FIFTH CONGRESS.

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P.
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HEARINGS

BEFORE THE

COMMITTEE ON BANKING AND CURRENCY.

SUGGESTIONS SUBMITTED TO THE COMMITTEE BY THE CHAIRMAN AT
A REGULAR MEETING ON DECEMBER 15, 1897.

GENTLEMEN OF THE COMMITTEE: We can not hope to secure favorable action in Congress upon needed amendments to the national-bank act, whatever their substance, that are not presented in such form as to meet the approbation of the 70,000,000 people whose servants we are. * therefore wish to call your attention to a few obvious facts.

It is generally conceded that the banking and currency laws need amendment. What changes would do most to induce an equitable distribution of banking capital and currency notes over the whole country, according to the needs of each section, there does not seem to be any agreement of opinion upon. That under the law as it stands the agricultural and higher-interest sections of the country suffer very great and unnecessary hardship and loss in exorbitant interest charges forced upon lenders of capital by the bank law and present methods of issuing currency, is asserted by the experts in finance of this and other countries.

The only safe and efficient remedy for this seems to be in allowing the people to have a currency issued on those sound banking principles upon which it is issued in all other countries. That the system of relieving bankers of all the responsibility, risk, and expense of maintaining specie payments upon all the currency notes in circulation, and devolving this redemption in specie on the Government Treasury, contrary to the practice and condemned by the experience of every country, has cost our people immense sums in direct loss and manifold more in indirect loss and suffering in intensifying monetary panics and industrial depressions, is believed by the great body of our people.

The seed from which sprang the recent financial crisis and industrial depression was undoubtedly an insufficient revenue, but the soil that received it had been fully prepared to give it its fruitage of incalculable disaster to our people, by a financial system at variance with and condemned by all experience.

Whatever remedies are needed we should diligently seek and immediately and fearlessly apply. We can not justify ourselves to the people if we wait for a repetition of the unhappy experience of the past. We are in duty bound to come to an early decision upon some form of amendments to the banking law that will preserve what is valuable, allow currency to be issued upon sound banking principles, and be a thorough and equitable solution of the whole problem. I will only add:

First. That I am thoroughly convinced the people do not desire the retirement of the whole body of United States legal-tender notes.

Second. That they do desire that their Government shall continue to control and issue all the currency notes used by the people.

Third. That the banks only shall put the notes so furnished into circulation and be responsible for their redemption in specie.

Fourth. That banks shall be required to keep each and every form of coin and paper money at a par with every other.

Fifth. That the Government guarantee the final payment of every dollar issued.

Sixth. To justify this guaranty and save the Government from loss it should collect a tax upon all currency notes supplied by it sufficient to guarantee the United States Treasury against loss, because of its guaranty of their final redemption.

If we are to come to any valuable result of our labors in framing a bill, we must agree upon what our procedure shall be. To reach a proper recommendation to the committee I have consulted with the chairmen of the subcommittees and the honorable gentleman (Mr. Cox, of Tennessee) of the minority.

In order that the committee may not seem to insist on a measure suggested or proposed by itself, we recommend—

First. To consider a bill including the three items upon which action is recommended at once by the President.

Second. To take the sense of the committee as to whether it shall proceed immediately to frame or consider any bill making any considerable amendments to the national banking law.

Third. If affirmative action is had on item No. 2, to adopt the following resolutions:

Resolved, That the following bills shall be first considered as in committee of the whole:

The bill of the Secretary of the Treasury shall be before the committee, and that the Secretary be given a hearing thereon, such hearing to be confined strictly to questions concerning the operation of the bill in practical banking and in its effects upon the United States Treasury, and that only interrogatories concerning matters over which the committee has jurisdiction when referred to it shall be in order.

Second item to be considered, the bill to be prepared by the Monetary Commission, which shall be proceeded with in the same manner and under the same conditions, and that a representative of the Commission be given a hearing.

Third bill to be considered, that presented by the chairman of the committee, and that shall be proceeded with in the same manner as the two bills first mentioned.

That the meetings of the committee be called for 10.30 a m., and that after 11 a. m. no business shall be in order excepting the consideration of the bills mentioned until their consideration is completed.

Then further action to be agreed upon.

CHANGES IN THE CURRENCY SYSTEM.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., December 16, 1897.

The committee met at 10.30 o'clock a. m., Hon. Joseph H. Walker in the chair.

Present, Messrs. Walker, Brosius, Johnson, Van Voorhis, McCleary, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, and Stallings.

The CHAIRMAN, Gentlemen, the Secretary of the Treasury has accepted the invitation of the committee to appear before it in explanation of a bill which he has prepared to carry out his recommendations to Congress, and he is now present.

Following is the bill presented by the Secretary:

[H. R. 5181. Fifty-fifth Congress, second session.]

IN THE HOUSE OF REPRESENTATIVES, DECEMBER 16, 1897.

Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed:

A BILL, to provide for the refunding of the national debt, for establishing a redemption fund and a division of issue and redemption in the Treasury of the United States, and to modify existing laws respecting national banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there be established in the Treasury Department, as a part of the office of the Treasurer of the United States, a division to be designated and known as the division of issue and redemption, to which shall be assigned, under such regulations as the Secretary of the Treasury may approve, all records and accounts relating to the issue, redemption, and exchange as hereinafter provided of the several classes of United States paper money. There shall be transferred from the general fund in the Treasury of the United States and taken up on the books of said division as a redemption fund the sum of one hundred and twenty-five millions of dollars in United States gold coin and bullion, and such further sums of standard silver dollars and silver bullion purchased under the act of Congress approved July fourteenth, eighteen hundred and ninety, as shall equal the silver certificates and Treasury notes of eighteen hundred and ninety outstanding on the date when this act shall take effect. And thereafter the gold and silver coins and bullion transferred from the general fund in the Treasury as herein provided shall be increased or diminished, as the case may be, in accordance with the provisions of this act, and in no other way.

SEC. 2. That all United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates presented for redemption shall be redeemed from the redemption fund herein provided, in accordance with the terms of existing law; but the notes and certificates so redeemed shall be held in and constitute a part of said fund, and shall not be withdrawn from said fund nor disbursed except in exchange for an equivalent amount of the coin in which said notes or certificates were redeemed; but to enable the Secretary of the Treasury more thoroughly to carry out the provisions contained in this act, he is hereby authorized to exchange any of the funds in the division of issue and redemption for any other funds which may be in the general fund of the Treasury Department: *Provided*, That nothing in this act shall be construed as repealing that provision of the act approved July fourteenth, eighteen hundred and ninety, which provides that there shall be outstanding at any time no more and no less of the Treasury notes authorized by said act than the silver bullion and standard silver dollars coined therefrom then held in the Treasury purchased with said notes.

SEC. 3. That the Secretary of the Treasury be, and he is hereby, authorized to receive at the Treasury any of the outstanding bonds known as the five per centum bonds of nineteen hundred and four and the four per centum consols of nineteen hundred and seven, issued respectively under the act approved January fourteenth, eighteen hundred and seventy-five, and the acts approved July fourteenth, eighteen hundred and seventy, and January twentieth, eighteen hundred and seventy-one, and to issue in exchange therefor coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars or some multiple of that sum, bearing interest at the rate of two and one-half per centum per annum, payable quarterly, and redeemable at the pleasure of the United States after ten years from date of their issue; and the bonds hereby authorized shall be payable, principal and interest, in United States gold coin of the present standard value, and shall be exempt from all taxation by or under State, municipal, or local authority: *Provided*, That none of the outstanding bonds shall be received at a valuation greater than their present worth to yield an income of two and one-half per centum per annum, and that the bonds hereby authorized shall be issued at not less than par.

SEC. 4. That the bonds authorized by this act, and any other bonds of the United States, may be deposited with the Treasurer of the United States as security for the circulating notes of national banking associations; and any national banking association which may deposit the bonds herein authorized to be deposited as security for its circulating notes shall be entitled to receive from the Comptroller of the Currency and to issue such notes to an amount equal to the face value of such bonds: *Provided*, That the aggregate amount of bonds deposited by any national banking association, under any law, shall not exceed the amount of its capital: *And provided further*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposit of bonds, or of lawful money, in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security.

SEC. 5. That any national banking association whose deposit of bonds is less than the amount of its capital may deposit with the Treasurer of the United States, under such regulations as the Secretary of the Treasury may approve, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates, and shall be entitled to receive from the Comptroller of the Currency and to issue an equal amount of its circulating notes; but the aggregate amount of bonds, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited by any national banking association shall not exceed the amount of its capital: *Provided*, That the total amount of United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited with the Treasurer of the United States under authority of this section shall not exceed the sum of two hundred millions of dollars.

SEC. 6. That the Secretary of the Treasury shall issue from time to time, in his discretion, bonds of the same class and character as those authorized in the third section of this act, and shall substitute the same with the Treasurer of the United States for equal amounts of the United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited by national banking associations; and the bonds so issued and substituted shall be charged to the respective national banking associations and be accounted for by them at such prices, not less than par, as shall represent the market value of such bonds. And the United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates released as herein provided shall become a part of the general redemption fund; and the Secretary of the Treasury is hereby authorized to exchange any of said Treasury notes of eighteen hundred and ninety and said silver certificates for a like amount of United States notes: *Provided*, That the amount of bonds issued under the authority of this section shall not exceed the sum of two hundred millions of dollars.

SEC. 7. When any national bank now existing or hereafter organized shall have deposited such United States bonds, United States notes, Treasury notes of eighteen hundred and ninety, or silver certificates to an amount of not less than fifty per centum of its capital, it shall be entitled to receive from the Comptroller of the Currency and to issue national bank notes, in addition to the fifty per centum thus provided, to the amount of twenty-five per centum of such deposits; but the circulation issued by any national banking association shall never be in excess of its paid-up capital stock, and the additional notes so issued shall not be secured by said deposit, but shall constitute a first lien upon all the remaining assets of the association issuing such notes. Upon the failure of any association to redeem its circulating notes above provided, whether the same are issued against deposited security or against general assets, the same shall be promptly redeemed by the Treasurer of the United States. To secure the United States against any loss arising from its

guaranty to pay and redeem such additional circulating notes, it shall be the duty of the Comptroller of the Currency to levy upon and collect from every national banking association issuing such unsecured circulation a tax at the rate of two per centum per annum on such unsecured circulation, which said tax of two per centum per annum shall be paid to the Treasurer of the United States in equal semiannual payments in January and July of each year; and when so collected it shall constitute a safety fund, out of which the United States shall be reimbursed for any redemption of said unsecured circulation it may make as herein provided. The safety fund thus created shall be invested by the Secretary of the Treasury in such Government bonds as he may consider advisable. Said tax of two per centum per annum shall be in addition to the tax of one-half of one per centum per annum on circulating notes hereinafter authorized.

SEC. 8. That each national banking association shall deposit and maintain in the Treasury of the United States a sum of lawful money equal to ten per centum of its aggregate circulation, said sum to be in lieu of the five per centum redemption fund now required by section three of the act approved June twentieth, eighteen hundred and seventy-four, to be maintained, and to be subject to all the provisions of existing law respecting said redemption fund not inconsistent with the provisions of this act; and in consideration of the deposits of bonds, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates, and the tax of two per centum on the unsecured circulating notes of national banking associations, and of the deposit of lawful money provided in this section, the faith of the United States is hereby pledged to the redemption in lawful money of the United States of all the circulating notes of said national banking associations.

SEC. 9. That the Comptroller of the Currency shall not issue to any national banking association, on and after the date when this act shall take effect, any of the circulating notes of such association of less denomination than ten dollars; and whenever any circulating notes of less denomination than ten dollars shall be redeemed or received into the Treasury of the United States, they shall be canceled and destroyed and other notes of lawful denominations shall be issued in their place.

SEC. 10. That on and after the date when this act shall take effect the circulating notes of the national banking associations shall be redeemed at the office of the United States assistant treasurer in the city of New York, and at such other sub-treasury offices as may be designated by the Comptroller of the Currency, with the approval of the Secretary of the Treasury; and the circulating notes of each national banking association so redeemed shall be charged to the ten per centum redemption fund of such association, under such regulations as may be prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

SEC. 11. That in lieu of all existing taxes every national banking association issuing notes shall pay to the Treasurer of the United States, in the months of January and July of each year, a tax of one-fourth of one per centum for each half year upon the average amount of its notes in circulation: *Provided, however,* That during all the period of time intervening between the deposit of United States notes, Treasury notes, and silver certificates, and the substitution of bonds by the Secretary of the Treasury, as in this act provided, the circulating notes specifically issued therefor and secured by said United States notes, Treasury notes, or silver certificates shall be exempt from taxation under the provisions of this act.

SEC. 12. That section fifty-one hundred and thirty-eight of the Revised Statutes shall be amended to read as follows:

"No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants; and except that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed two thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a less capital than two hundred thousand dollars."

SEC. 13. That this act shall take effect on and after the day of eighteen hundred and ninety- ; and all acts and parts of acts inconsistent with the provisions of this act are hereby repealed.

STATEMENT OF HON. LYMAN J. GAGE, SECRETARY OF THE TREASURY.

Secretary GAGE said:

Mr. Chairman and gentlemen of the committee: The objects I have in mind in the series of provisions offered by me are four in number:

1. To commit the country more thoroughly to the gold standard,

remove, so far as possible, doubts and fears on that point, and thus strengthen the credit of the United States both at home and abroad.

2. To strengthen the Treasury in relation to its demand liabilities, in which are included greenbacks, Treasury notes, and the incidental obligation to maintain on a parity, through interchangeability with gold, so far as may be necessary, the present large volume of silver certificates and silver dollars.

3. To do this in such a way as not to contract the volume of circulation in the hands of the people.

4. To take an initial step toward a system of bank-note issues without the conditional deposit of public bonds as security therefor. If we prosper as a people, the revenue of the Government ought to be somewhat in advance of its expenditures and the public debt of the United States gradually reduced and finally extinguished. Looking at the question widely, from my best point of knowledge and experience, I feel that, if these could be secured, the condition of the Government in its relations to the currency would be much safer and stronger than now, and that, through the operation of national-bank note currency, the commercial and industrial interests of the United States would be greatly advantaged.

As to the first proposition—to commit the country more thoroughly to the gold standard, remove as far as possible doubts and fears on that point, and thus strengthen the United States both at home and abroad—the proposition to refund the bonded debt of the United States, now payable in coin, into bonds bearing a lower rate of interest and payable, principal and interest, in gold, is a measure directed to that end. It will cost the Government nothing whatever, so far as the refunding of the debt is concerned, except the expenditure necessary to print the bonds and do the clerical work. It will take ambiguity out of the relations of the Government to its creditors; it will give, I believe, a strength and security and power to the whole commercial and industrial system of the United States, and the measure as it is prepared will, in my opinion, accomplish that object.

The other measures before you which I have been, and am now, ready to be questioned about have been drawn to accomplish not only the objects named but the various purposes already detailed. If they are worthy objects they ought to be recognized and secured; if they are unworthy they ought to be rejected, or, if the manner of securing them is not a wise one, as I have delineated it, the manner ought to be rejected, or reformed, or improved.

I think that is all that is necessary for me to say as an introduction. I would be glad to answer any questions which the committee desire to ask.

The CHAIRMAN. I would suggest that the bill should be read by sections, the Secretary reading it, if he desires, or, if he prefers that I should do so, I will take up the bill and read it by sections.

Secretary GAGE. I prefer that you read it.

The Chairman read as follows:

A BILL To provide for the refunding of the national debt, for establishing a redemption fund, and a division of issue and redemption in the Treasury of the United States, and to modify existing laws respecting national banks, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there be established in the Treasury Department, as a part of the office of the Treasurer of the United States, a division to be designated and known as the division of issue and redemption, to which shall be assigned, under such regulations as the Secretary of the Treasury may approve, all records and

accounts relating to the issue, redemption, and exchange, as hereinafter provided, of the several classes of United States paper money. There shall be transferred from the general fund in the Treasury of the United States and taken up on the books of said division as a redemption fund the sum of one hundred and twenty-five millions of dollars in United States gold coin and bullion, and such further sums of standard silver dollars and silver bullion, purchased under the act of Congress approved July fourteenth, eighteen hundred and ninety, as shall equal the silver certificates outside the Treasury, and Treasury notes of eighteen hundred and ninety outstanding on the date when this act shall take effect; and thereafter the gold and silver coins and bullion transferred from the general fund in the Treasury, as herein provided, shall be increased or diminished, as the case may be, in accordance with the provisions of this act, and in no other way.

The CHAIRMAN. Do the members of the committee desire to ask any questions in reference to that section?

Mr. BROSIUS. I would like to inquire of the Secretary just what he means in his language beginning on the first page of the bill, the line next to the bottom, "as shall equal the silver certificates outside the Treasury, and Treasury notes of 1890 outstanding on the date when this act shall take effect." Does the Secretary mean equal at the market value of silver, or at its coin value?

Secretary GAGE. I mean to have the silver dollars which are held against the certificates all turned over to this division, together with the bullion purchased with the Treasury notes.

Mr. BROSIUS. The whole of it?

Secretary GAGE. The bullion that the Treasury notes bought.

Mr. BROSIUS. The Secretary will observe that he says the amount of silver turned over "shall equal the silver certificates outside the Treasury, and Treasury notes of 1890 outstanding, on the date when this act shall take effect." That is, the silver dollars plus the silver bullion shall equal the amount of the silver certificates and the Treasury notes of 1890. Do you mean equal in amount in coin value or in market value?

Secretary GAGE. I mean the value at which they were purchased; and the words "outside the Treasury" I spoke about to the Solicitor of the Treasury, who drew the bill, as I was coming up here this morning. I would strike out four words, "outside the Treasury and," and put in the word "outstanding."

Mr. McCLEARY. The word "outstanding" is already there, further along.

Secretary GAGE. Yes, sir. I would also leave in the word "and."

The CHAIRMAN. Then the words "outside the Treasury" you would strike out?

Secretary GAGE. That is correct.

Mr. BROSIUS. In that connection, I would ask the Secretary whether it is his thought to redeem the Treasury notes of 1890 in that silver bullion at its gold value?

Secretary GAGE. No, sir. Redeem Treasury notes either in silver dollars, which we may coin out of that bullion, as we now coin it, or in gold, as the holders of the Treasury notes may elect.

SILVER MADE EQUAL TO GOLD.

Mr. BROSIUS. The bill contemplates, of course, that the silver shall be made equal to gold?

Secretary GAGE. Shall be kept at par with gold—yes, sir; as far as it would operate at all.

Mr. COX. In response to the last question of Mr. Brosius, I understand that this bullion is carried to be used in the redemption of notes

that were issued in its purchase, or that those notes may be redeemed in gold, at the option of the holder of the note?

Secretary GAGE. That is correct.

Mr. COX. Suppose that in the process that you have suggested the election to draw it out in gold should be of such character that it exhausted your gold; then how would you replenish it?

Secretary GAGE. That, I think, will come a little later. Besides, I should say that the Treasury notes could not draw it all out, because there is only a little over a hundred million dollars of it all told, and there are \$125,000,000 of gold. So they could not draw it all out.

The CHAIRMAN. Section 2 is as follows:

SEC. 2. That all United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates presented for redemption shall be redeemed from the redemption fund herein provided, in accordance with the terms of existing law; but the notes and certificates so redeemed shall be held in and constitute a part of said fund, and shall not be withdrawn from said fund nor disbursed, except in exchange for an equivalent amount of the coin in which said notes or certificates were redeemed; but to enable the Secretary of the Treasury more thoroughly to carry out the provisions contained in this act, he is hereby authorized to exchange any of the funds in the division of issue and redemption for any other funds which may be in the general fund of the Treasury Department: *Provided*, That nothing in this act shall be construed as repealing that provision of the act approved July fourteenth, eighteen hundred and ninety, which provides that there shall be outstanding at any time no more and no less of the Treasury notes authorized by said act than the silver bullion and standard silver dollars coined therefrom then held in the Treasury purchased with said notes.

The CHAIRMAN. Are there any questions upon this section of the bill?

Secretary GAGE. I would remark, perhaps anticipating a question, that in the ninth line and following are these words:

But to enable the Secretary of the Treasury more thoroughly to carry out the provisions contained in this act he is hereby authorized to exchange any of the funds in the division of issue and redemption for any other funds which may be in the general fund of the Treasury Department.

The first part of the section provides that he shall retain the notes until exchanged for the same kind of money in which the notes were redeemed. If the silver certificates were redeemed and silver paid out, he could not get those silver certificates out again until silver came in; but if the Treasury proper had silver he could transfer the silver certificates to it and take silver from it and put in this division, and through exchangeability with the general fund these relations could be better maintained. I should have added or "United States notes" also.

THE REDEMPTION OF NOTES.

Mr. JOHNSON. The words, "in accordance with the terms of existing law," I see in the fourth line of this section. That means, I suppose, the idea that redemption is to be in such coin as the holder may desire; that the option shall be with the persons who present the money for redemption, rather than with the Government?

Secretary GAGE. The existing law provides in effect—although I would not like to undertake to state the exact language—that the holder can have any money he pleases. It is discretionary with the Secretary of the Treasury under the law now, is it not?

Mr. JOHNSON. But the rule has been established and followed quite invariably by Secretaries of the Treasury that they will make redemption in such coin as the holder may designate.

Secretary GAGE. It is in conformity with long practice that I put this language in the bill.

Mr. JOHNSON. I want to make myself clear upon that point. While there is no such law, yet it has been a rule of construction of the law adopted by the Department, and you contemplate that it is necessary, in order to maintain the parity of value of the different kinds of money, that that construction shall continue? Is that it?

Secretary GAGE. Yes, sir; that is my purpose.

Mr. PRINCE. There is one question I would like to ask in reference to the language in line 7, I think it is. Mr. Cox, of Tennessee, has asked you if a certificate was presented for redemption and the holder of the certificate asked that it be paid in gold, whether it would be paid in gold. Now, does not line 7 say that if you can pay out that certificate that has been redeemed, it shall be paid out only in case gold was presented?

Secretary GAGE. That is correct.

Mr. PRINCE. That is all.

Secretary GAGE. And I might add, if this law were enforced, and the Secretary of the Treasury were not prohibited by any other law, that should anybody come with silver certificates and demand gold, and, in the opinion of the Secretary it was necessary to meet that demand in order to maintain the parity of the two metals, he would pay the gold for the silver certificates. Now, how would he get his gold back again? He might hold the certificates a long time before the public would come in and volunteer to give him gold and take those which he had redeemed in gold. But having the liberty under this section to exchange any kind of money with the other, with the general fund, if that fund had gold—and it is expected that it always will have more or less gold, a large working balance—the Secretary could take these certificates he had redeemed in gold and pass them over to the general fund and draw gold back, and thus he would comply strictly with the requirements of the law. He would not pay them out in this division except in exchange for the same kind of money in which he redeemed them, and if the other department could not do it, he would have to wait until it could.

The CHAIRMAN. What percentage of the present income of the Treasury is paid in gold?

Secretary GAGE. Perhaps one-half of one per cent; something like that. It is so small that I have not looked into the matter.

The CHAIRMAN. It cuts no figure?

Secretary GAGE. No; it cuts no figure whatever.

Mr. COX. In that connection I desire to get this point clearly in my mind. We will say you put this into practical operation. I present silver certificates and demand gold. The condition of the Treasury, we will assume, is such that there is an abundance of silver and not an abundance of gold. Is it your construction that I have a right to demand the gold and the duty of the Secretary of the Treasury to pay it out?

Secretary GAGE. I believe it is the duty of the Secretary to pay it out, if, in his discretion or opinion, it is necessary to do that in order to forestall an operation which might otherwise occur in the market—namely, the selling of silver certificates at a discount for gold. If I thought that event was going to happen and I had the gold, I would redeem in gold. If I did not have the gold, I would have to get it somewhere or default.

Mr. COX. That brings us down to the point. Suppose that I had

gone on the market and bought up these silver certificates for the purpose of converting them into gold. We will assume that to be the fact. Now, then, I present them to the Secretary, but he has a limited amount of gold, and in his opinion he does not think the obligation exists upon him to redeem them in gold. That being the case, would not that at once destroy the parity between gold and silver?

Secretary GAGE. If he had to pay them in silver, you mean?

Mr. COX. Yes, sir.

Secretary GAGE. Yes, sir, I think it would operate that way; but I do not think the contingency you look forward to would happen.

Mr. COX. There is a contingency, though, that such a result might occur?

Secretary GAGE. I think it so remote as hardly to be worthy of consideration.

Mr. MITCHELL. It would not be as likely to occur after the passage of this act as at the present time?

Secretary GAGE. I do not think it would be as likely to occur as now.

Mr. MITCHELL. The practical operation of this, Mr. Secretary, I understand, is that a separate department is kept in which so much gold and silver is stored. When these other certificates come in, they are put into this room, and so much gold and silver is taken out, so that the gold and silver or Treasury notes are withdrawn from what may be called general circulation, and can only be replaced by bringing back to the Treasury so much gold or silver coin?

Secretary GAGE. You have a perfectly correct apprehension of it.

Mr. JOHNSON. This section, I apprehend, Mr. Secretary, is framed along the line of the principle suggested by the President, of not paying out greenbacks except for gold, after once redeemed, and probably has in view the same object, to prevent undue raids on the Treasury to diminish the gold reserve?

Secretary GAGE. It has the same purpose.

REFUNDING THE DEBT.

Mr. JOHNSON. The principle is the same?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Section 3 is as follows:

SEC. 3. That the Secretary of the Treasury be, and he is hereby, authorized to receive at the Treasury any of the outstanding bonds known as the five per centum bonds of nineteen hundred and four and the four per centum consols of nineteen hundred and seven, issued respectively under the Act approved January fourteenth, eighteen hundred and seventy-five, and the acts approved July fourteenth, eighteen hundred and seventy, and January twentieth, eighteen hundred and seventy-one, and to issue in exchange therefor coupon or registered bonds of the United States, in such form as he may prescribe, in denominations of fifty dollars, or some multiple of that sum, bearing interest at the rate of two and one-half per centum per annum, payable semiannually, and redeemable at the pleasure of the United States after ten years from date of their issue; and the bonds hereby authorized shall be payable, principal and interest, in United States gold coin of the present standard value, and shall be exempt from all taxation by or under State, municipal, or local authority: *Provided*, That none of the outstanding bonds shall be received at a valuation greater than their present worth to yield an income of two and one-half per centum per annum, and that the bonds hereby authorized shall be issued at not less than par.

The CHAIRMAN. Has it been customary to pay the interest on Government bonds quarterly?

Secretary GAGE. I think it has; yes, sir.

The CHAIRMAN. Why do you vary this language, then, changing it from quarterly to semiannually?

Secretary GAGE. That is purely an indifferent question. It was not intended to make any change. I am glad to have that suggested.

The CHAIRMAN. If there is no special reason for changing the language would it not be better kept as it is—quarterly?

Secretary GAGE. I think that is a good suggestion.

The CHAIRMAN. Then, in line 13 of section 3 of the bill, instead of "payable semiannually," you desire it to read "payable quarterly?"

Secretary GAGE. Yes, sir.

The CHAIRMAN. I think you will find all your figures are based on the quarter, and if you changed it to semiannually we would have to go all over the tables and estimates again.

Mr. BROSIUS. This section contemplates nothing further than the simple refunding of the debt?

Secretary GAGE. That is all this section contemplates; yes, sir.

Mr. PRINCE. If this should be done, how much of a difference would it make in the interest charge?

Secretary GAGE. The Government of the United States would have to pay the same sum of money, principal and interest, adding them both together, that it will have to pay under the bonds that are now out. Counting both, it does not increase or diminish the public debt that will finally have to be liquidated on account of bonds, except in this: Some of these bonds mature in 1904 and some of them in 1907. This extends the bonds a little—in one case three years, and in another case one year; but it does operate to fund the difference in interest between $2\frac{1}{2}$ per cent and 4 per cent in the bonds running ten years. There is that difference in interest, between 4 per cent and $2\frac{1}{2}$ per cent, which will be accounted for to the holders of bonds in the shape of bonds, and they will mature in ten years. It releases the Government from an annual outgo at the present time—I figured it up the other day—of some ten or eleven million dollars, about ten million dollars a year; that is, considering this section alone.

Mr. MITCHELL. In relation to that matter, if the Government went on a $2\frac{1}{2}$ per cent basis, at the expiration of the time these bonds fell due we would be able to continue on that basis in that way and save money, would we not?

Secretary GAGE. We would be able to continue at $2\frac{1}{2}$ per cent, no matter what the condition of the money market was at that time or the condition and credit of the Government. We guarantee to ourselves, if this exchange is perfected, an indefinite continuance of that debt, but in our control and pleasure to redeem it, at a rate of interest not higher than $2\frac{1}{2}$ per cent. Of course, these other outstanding bonds also run at the pleasure of the Government, but they draw 4 and 5 per cent. Some legislation will be necessary sometime, or else the Government will continue to pay 4 and 5 per cent. An arrangement must be made with those holders, or the Government will pay 4 or 5 per cent. Now, it seems to me reasonable and judicious to put ourselves in shape so that at the maturity of this debt, no matter what the condition of the country may be, no matter what the condition of the money market may be, we can continue these bonds indefinitely at $2\frac{1}{2}$ per cent, or pay them off, and borrow the money at $1\frac{1}{2}$ per cent, if we can do that. We have secured a $2\frac{1}{2}$ per cent indefinite loan.

Mr. MITCHELL. And in your opinion, in the long run, the Government would necessarily save a great deal by this?

Secretary GAGE. I believe it would be a great advantage.

THE TERM OF BONDS.

Mr. NEWLANDS. Mr. Secretary, what do you mean by the term "an indefinite loan"?

Secretary GAGE. I mean at the pleasure of the Government after ten years.

Mr. NEWLANDS. You mean to say that the holder of a bond can never demand payment of it of the Government?

Secretary GAGE. That is the way I understand it. It is the same as it is now.

Mr. NEWLANDS. Do not they run for any definite periods?

Secretary GAGE. No, sir; they run at the pleasure of the Government after thirty years. They were thirty-year bonds. They mature in 1904 and 1907.

Mr. NEWLANDS. What is to be the term of these new bonds?

Secretary GAGE. At the pleasure of the Government after ten years.

Mr. NEWLANDS. But when can the holder of the bonds demand payment?

Secretary GAGE. He can sell them in the market. I do not see that he can demand payment at all.

Mr. NEWLANDS. How long do they run?

Secretary GAGE. At the pleasure of the Government.

Mr. NEWLANDS. I thought you said the existing bonds ran for thirty years?

Secretary GAGE. They did when they were authorized, and they mature in 1904. In that year they will come under the control of the Government, to be paid off if the Government wants to pay them off, or to make some arrangement—

Mr. NEWLANDS. That is true, then, of the existing bonds that so far as the Government is concerned the holder can not at any time demand payment?

Secretary GAGE. That is the way I understand it.

Mr. NEWLANDS. Now, then, about the interest. You reduce the interest to $2\frac{1}{2}$ per cent. Is the amount of principal to be paid increased at all?

Secretary GAGE. Of the debt?

Mr. NEWLANDS. Yes, sir.

Secretary GAGE. Yes, sir; it will be increased by the difference that will be required to settle with the present bondholders, giving them an equitable recognition for the difference, giving them that difference in the shape of bonds.

Mr. VAN VOORHIS. I understood you to say, Mr. Secretary, that the bonds sold in 1895 were thirty-year bonds, and that those bonds did not mature in thirty years?

Secretary GAGE. I was not speaking of those. I was speaking of these that I refer to—

Mr. VAN VOORHIS. Oh, the new issue?

Secretary GAGE. I did not refer to the 1925 bonds at all in this section. I recommended the refunding of bonds of 1904 and 1907.

The CHAIRMAN. Why did you exclude those bonds? [See p. 197.]

Secretary GAGE. For two reasons. They run a long time, and when they were sold Congress specifically refused to make a bond payable in gold at that time, and paid a large amount of money rather than do that. And I preferred to let that question alone. Another reason was

that it would take about 30 per cent of their face to settle the difference between 2½ per cent bonds and 4 per cent bonds of 1925. That was another objection.

The CHAIRMAN. It would take 30 per cent of their face. Do you mean there would have to be 30 per cent more bonds issued than the bonds now outstanding?

Secretary GAGE. About that.

Mr. JOHNSON. I understand then, Mr. Secretary, that in this bill you do not undertake to fund the bonds issued during the Cleveland Administration?

Secretary GAGE. No, sir; not those maturing in 1925. I leave them as they are. If anybody wants to do that, all right; but I would not recommend it myself.

The CHAIRMAN. What is the amount of the bonds of 1904 and 1907?

Secretary GAGE. \$100,000,000 of 1904 bonds and \$559,000,000 of 1907 bonds. (Referring to memorandum.) To be exact, there are \$559,640,000, in round numbers, of the 4 per cent bonds maturing in 1907.

The CHAIRMAN. That makes \$659,000,000 of bonds altogether?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Do you anticipate that if all the money possible under this bill were issued by the banks, and it were in circulation, there would be a sufficient amount of bonds to secure the circulation that would be needed?

Secretary GAGE. I think if there were not a sufficient amount there would be some other method of securing the circulation that would be entirely feasible.

Mr. COX. Taking up the bonds that you have spoken of—the \$100,000,000 of 5 per cent bonds that you have spoken of—and the bonds that fall due in 1907, you state that there would, of course, have to be adjusted the equities between the bondholders holding that character of securities and the new bonds that they would receive?

Secretary GAGE. Yes, sir.

Mr. COX. First, the difference on the face of the bond. It provides that it is payable, principal and interest, in gold. My point is—it is a mere matter of calculation, but I desire it to appear in the record—how much for a dollar of bond, say of 1907, would he receive in the new bonds?

Secretary GAGE. Perhaps I can answer your question comprehensively by saying it will take about \$90,000,000 more of bonds than are now outstanding to refund these bonds. Those bonds will draw 2½ per cent interest instead of 4 per cent, and the total amount of money to be paid out by the Government at the end of ten years would be the same in the one case as in the other.

Mr. JOHNSON. That section is not expected to make any saving to the Government as an interest investment?

Secretary GAGE. No, sir.

Mr. JOHNSON. The idea is the one you have explained, of putting the national finances on a sound basis?

Secretary GAGE. Yes, sir; and it has the advantage or disadvantage—whichever you may call it—of saving an annual disbursement of about \$10,000,000.

Mr. BROSIUS. Thus increasing the credit, but in the end increasing the debt?

Secretary GAGE. Yes, sir.

The Chairman read as follows:

SEC. 4. That the bonds authorized by this Act, and any other bonds of the United States, may be deposited with the Treasurer of the United States as security for the circulating notes of national banking associations; and any national banking association which may deposit the bonds herein authorized to be deposited as security

for its circulating notes shall be entitled to receive from the Comptroller of the Currency and to issue such notes to an amount equal to the face value of such bonds: *Provided*, That the aggregate amount of bonds deposited by any national banking association, under any law, shall not exceed the amount of its capital: *And provided further*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposit of bonds, or of lawful money, in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security.

The CHAIRMAN. I think that is clear. I will read the next section:

SEC. 5. That any national banking association whose deposit of bonds is less than the amount of its capital may deposit with the Treasurer of the United States, under such regulations as the Secretary of the Treasury may approve, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates, and shall be entitled to receive from the Comptroller of the Currency and to issue an equal amount of its circulating notes; but the aggregate amount of bonds, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited by any national banking association shall not exceed the amount of its capital. *Provided*, That the total amount of United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited with the Treasurer of the United States, under authority of this section, shall not exceed the sum of two hundred millions of dollars.

Mr. McCLEARY. I would like a brief statement of the purpose of that section.

Secretary GAGE. The purpose of that section is to provide a buffer, so to speak, against the operation of that section which provides for taking \$200,000,000 of the present currency into the issue and redemption division. We have passed over that, have we not?

Mr. MITCHELL. That was the second section.

Secretary GAGE. You should read section 6, I think, in connection with section 5, to get your answer.

The CHAIRMAN. We will go ahead with section 6 (reading):

SEC. 6. That the Secretary of the Treasury shall issue from time to time, in his discretion, bonds of the same class and character as those described in the third section of this Act, and shall substitute the same with the Treasurer of the United States for equal amounts of the United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates deposited by national banking associations; and the bonds so issued and substituted shall be charged to the respective national banking associations, and be accounted for by them at such prices, not less than par, as shall represent the market value of such bonds. And the United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates released as herein provided shall become a part of the general redemption fund. And the Secretary of the Treasury is hereby authorized to exchange any of said Treasury notes of eighteen hundred and ninety and said silver certificates for a like amount of United States notes: *Provided*, That the amount of bonds issued under the authority of this section shall not exceed the sum of two hundred millions of dollars.

The CHAIRMAN. In the third line of that section you use the words "described in the third section of this act." There are a good many bonds described in that section. Do you mean the bonds authorized to be issued in that section?

Secretary GAGE. Yes, sir; these 2½ per cent bonds.

The CHAIRMAN. Is the language I have quoted sufficiently clear?

Secretary GAGE. They are the only bonds authorized to be issued.

Mr. NEWLANDS. The Chairman suggests that word "authorized" should be substituted in the place of the word "described."

Secretary GAGE. Yes, sir; that is a good change.

The CHAIRMAN. Do you want the word "authorized" put in there in place of the word "described?"

Secretary GAGE. Yes, sir.

The CHAIRMAN. Then this section would read, line 3, "the same class and character as those authorized?"

AVOIDING A CONTRACTION OR EXPANSION OF THE CURRENCY.

Secretary GAGE. Yes, sir.

In answer to the question of Mr. McCleary, section 5 and section 6, I think, may be treated as one. Their purpose is to take into this issue and redemption division \$200,000,000 of the legal-tender notes of the United States, and put them over there to be held until somebody wants to come and pay in gold in exchange for them; and to the extent that persons do this the gold which would be thus brought into the issue and redemption division shall be held for the redemption of these notes or any obligation incumbent upon the issue and redemption division. To take in \$200,000,000 of the present demand obligations of the Government by bonds and tie them up until they were exchanged for gold would be, I think, in the general opinion of most men in the United States, a contraction of the currency at this time so violent that nobody could endure it, and therefore it would not do. On the other hand, I regard it as very important that the Government of the United States should reduce its obligations payable on demand.

I want to avoid contracting or expanding the currency in this particular operation. I want to give the best guaranties that it will not operate in either direction in carrying it out. Therefore, I provide that the preliminary step shall be the deposit by banks of some form of demand obligations of the United States—Treasury notes, greenbacks, or Treasury certificates—and when they do deposit them, to that extent, no less and no more, we will issue their notes to them, the same as we do on bonds now; that, as these bonds can be printed and put into shape to be substituted, they shall be substituted for that currency, the banks accounting for them at what they may appear to be worth in the market, not less than par, so that the bonds proposed to be issued, of the same kind as provided for in previous sections of the bill, 2½ per cent bonds, would be deposited, and the currency re-covered into the issue and redemption division. As it is re-covered in, it would come in, perhaps, in mixed form.

It would be greenbacks, it would be silver certificates, it would be Treasury notes; but for the sake of uniformity, and in recognition of the fact that legal-tender notes are the only pure, absolute, credit obligations of the United States, I think it best to get that \$200,000,000 in one uniform kind of money into that issue and redemption division, namely, legal-tender notes of the United States. For that reason I have the liberty under this bill to exchange, as I may be able to, the two forms, Treasury notes and silver certificates, for legal tenders out of that division, until I do secure the end desired, namely, the building up of the \$200,000,000 legal tenders in that division.

Mr. MITCHELL. Wouldn't the practical effect of that be, Mr. Secretary, that gold would be deposited in that fund, and the greenbacks and these other notes would go again into circulation?

Secretary GAGE. That is a matter of opinion. My opinion is that, if the provisions set forth by me as a whole were adopted, within six months the banks of the United States would bring in \$100,000,000 of gold, and say, "We would like some of those greenbacks; they are a better form of reserve for us than the gold."

Mr. BROSIUS: Under our monetary system, as well as that of most countries where there is redemption money and representative money, is there anyway to convert one into the other except by presenting to somebody at some place a demand obligation in paper to receive the coin, gold?

Secretary GAGE. Well, I should say no; if I properly understand the question.

Mr. BROSIUS. Now here, under our system, we must either present a demand obligation to a bank to get gold, or we must present it at the Treasury of the United States to get gold. Is that so?

Secretary GAGE. That is, the people?

Mr. BROSIUS. I mean the people who want the redemption.

Secretary GAGE. Yes, sir.

Mr. BROSIUS. Now, if I understand it, your plan—it is somewhat comprehensive—has in view taking out of the volume of our circulation the amount of these demand obligations. Is that it?

Secretary GAGE. Yes, sir.

Mr. BROSIUS. If they are taken from the volume of our circulation and put into the vaults of the Treasury, they can no longer be presented for redemption?

Secretary GAGE. That is perfectly correct.

MAINTAINING THE PARITY OF OUR MONEY.

Mr. BROSIUS. Now, how can we redeem the pledge we are under by existing law to maintain the parity of our money unless we afford some means for the people who hold paper to present those obligations for redemption in gold?

Secretary GAGE. We can not. I understand we have such a process now.

Mr. BROSIUS. If we take \$200,000,000 of the \$346,000,000 out of circulation and hold it in the Treasury, that can not be presented?

Secretary GAGE. No, sir.

Mr. BROSIUS. What kind of demand obligations will the people have to present to the Treasury to get their gold?

Secretary GAGE. They will have \$146,000,000 of greenbacks. They will have \$100,000,000 or more of Treasury notes, and they will have \$450,000,000 of national-bank notes. They could not present them to the Treasury, but they can present them to those who promise to pay.

Mr. BROSIUS. I know that; but the Government has undertaken to maintain the parity of all our money.

Secretary GAGE. Yes, sir.

Mr. BROSIUS. The only agency it has to redeem that pledge is to have demand obligations, and to have a gold reserve with which it redeems the obligations upon demand, and if all the demand obligations are taken in we have no use for that gold reserve at all, and all our power to maintain the parity by redeeming demand obligations in gold would be gone after we relegate the whole responsibility and duty of maintaining the parity of the different kinds of money upon the banks of the country. The banks will have to do it. Isn't that so?

Secretary GAGE. I do not understand it so at all; no, sir. I do not understand that the creation of demand obligations upon the part of the Government is any aid to the redemption of those that are out. Coming to the second proposition—the ability of the Government of the United States to maintain the parity between the different forms of its money outstanding depends upon its ability to control gold. So far as it can reduce the obligations that are outstanding, so far it increases its strength to take care of those that are out.

Mr. BROSIUS. I do not dispute that, but you do not seem to catch my point. Unless you have a demand obligation out to be exchanged for gold, nobody can get any gold out of the Treasury?

Secretary GAGE. Nobody can recover a debt from some one who does not owe him.

Mr. BROSIUS. Very well. Then the duty that we have undertaken, to maintain the parity of gold and silver and all our money, requires that the people are afforded some means of getting gold with the other money?

Secretary GAGE. The means are open, as I look at it.

Mr. BROSIUS. Are there any means left after the demand obligations of the Government are taken out of circulation?

Secretary GAGE. Yes, sir; there would be if they were all out.

Mr. BROSIUS. What way?

Secretary GAGE. The way would be for people to present their obligations to the national banks.

Mr. BROSIUS. That is not the Government.

Secretary GAGE. Wait a minute. They would demand the payment of their obligations in the legal money of the United States. If the banks refused to discharge their duty, it would be the duty of the Government, under the law as it is now, to discharge it for them, and to take possession of their assets and sell them, and to recoup itself for so doing.

Mr. BROSIUS. The law does not make it their duty.

Secretary GAGE. To do what?

Mr. BROSIUS. To redeem in gold.

Secretary GAGE. It makes it their duty to redeem in legal money of the United States.

Mr. BROSIUS. But if the money is all taken in, what will they redeem in but gold? The law does not require them to redeem in gold. They would comply with the law if they redeemed in silver.

Secretary GAGE. They would. Now you have struck the point. You think that when the Government demand obligations are out it will have no function in maintaining a parity. It will have about all the function it wants to perform in keeping \$560,000,000 in silver money of the United States, and keeping that on a parity.

Mr. BROSIUS. How?

Secretary GAGE. By exchanging gold for it.

Mr. BROSIUS. A gold reserve would have to be provided for that purpose?

Secretary GAGE. I think so.

Mr. BROSIUS. Yes. Then, all the paper obligations being issued by the banks, the redemption of that would be left entirely to the banks?

Secretary GAGE. I think so.

Mr. BROSIUS. If they failed to redeem, wouldn't the whole system break down and gold go to a premium at once?

Secretary GAGE. Not if the Government would maintain its obligation to maintain the parity.

Mr. BROSIUS. But the Government has no obligations outstanding except in silver.

Secretary GAGE. Then it would have nothing to maintain.

Mr. BROSIUS. And then, if the banks refused to redeem in gold, or were unable to redeem in gold, the whole system would collapse, and we would go to a silver basis?

Secretary GAGE. I can not quite follow you. I thought you asserted a minute ago—

The CHAIRMAN. I think I can put a question right there that will perhaps clear this. The object of retiring this \$200,000,000 is to put it

out of the power of anyone to use the \$200,000,000 to ask for gold redemption.

Secretary GAGE. That is correct.

The CHAIRMAN. It leaves out in circulation all the silver certificates and the Treasury notes. Now, what Mr. Brosius wants to get at is, how the Government gets gold if it proposes to redeem all those Treasury notes and certificates in gold.

Secretary GAGE. Well, that is another question. It makes little difference how they do it. I provide how they can do it a great deal easier than now.

The CHAIRMAN. How?

Secretary GAGE. There would be \$200,000,000 less to take care of.

The CHAIRMAN. Out of the \$700,000,000?

Secretary GAGE. Out of the \$930,000,000.

Mr. BROSIUS. If you would take it all out, then you would have nothing to redeem. You would then be relieved entirely?

Secretary GAGE. Yes, sir.

Mr. BROSIUS. If there is advantage in cutting down the demand obligations of the Government \$200,000,000, there would be still greater advantage in wiping them out altogether?

Secretary GAGE. Looked at from one point of view, yes; but a man or a corporation or a government may carry a certain amount of liabilities without great inconvenience or risk, but if you increase those liabilities from 20 to 25 per cent, you may involve all the elements of risk and discredit.

PROVIDING GOLD FOR REDEMPTION PURPOSES.

Mr. BROSIUS. The point or the motive of my inquiry, Mr. Secretary, illustrates the difficulty I have always encountered in reference to our redemption on the plan you are now illustrating, that when we need money for purposes of export, we must get the gold somewhere, or our obligations will go to protest—or the country will go to a silver basis. Inasmuch as the Government has undertaken to maintain the parity between its different kinds of money, it must provide gold under that system, and that is what that pledge was made for. If it deprives itself of the means of supplying that gold, then the banks alone must supply it, and if that duty and responsibility is relegated wholly to the banks, my apprehension is that the banks, in an extremity, would be unable to obtain it, and in that case, we would go to a silver basis. I wanted to state that, so that the Secretary would understand the motive in making these inquiries. I understand in the bill there is a provision requiring the banks to redeem their paper in gold.

Secretary GAGE. Not in this bill; no, sir.

Mr. PRINCE. I understand that there are about \$346,000,000 in greenbacks now out. Now, what amount of Treasury notes is outstanding?

Secretary GAGE. Here are the figures in the report—\$114,000,000.

Mr. PRINCE. What is the amount of silver certificates?

Secretary GAGE (continuing). And silver dollars amounting to \$410,000,000.

Mr. PRINCE. Making a total of how much?

Secretary GAGE. \$930,000,000, if I have stated the details correctly.

Mr. PRINCE. Now, as I understand it, there are \$930,000,000 of demand notes of one kind and another which may be presented to you as Secretary of the Treasury for redemption. The holder, we will say, demands the gold instead of silver. Do you hold that the \$930,000,000 can be paid in gold at the direction of the holder of this paper?

Secretary GAGE. I hold that your question is theoretical. Yes, theoretically they might all be presented. Practically, it is a physical impossibility.

Mr. PRINCE. I agree with you on that.

Secretary GAGE. It is as much of a physical impossibility as it is for a man to breathe twice the capacity of his lungs. He can not do it.

Mr. PRINCE. I agree with you there, but I am asking you whether, either in small bits or in total, the holders could demand gold for it. Now you purpose, as I understand you, to put aside \$200,000,000 in this fund, and upon that issue bonds, upon which the banks can issue money?

Secretary GAGE. Yes, sir.

Mr. PRINCE. Then there is \$200,000,000 now drawing no interest, which instead is to draw interest at $2\frac{1}{2}$ per cent? That leaves still \$730,000,000 which may still come to you for the purpose of redemption?

Secretary GAGE. That leaves \$730,000,000 for the purpose of redemption; yes, sir.

Mr. PRINCE. How many million dollars will the bank circulation reach at the same time?

Secretary GAGE. I think it will be something like \$500,000,000.

Mr. PRINCE. That, added to the \$730,000,000, makes \$1,230,000,000. So, if the banks have to redeem the gold, there are demand notes and in circulation, either against the Government or the banks, for which gold can be demanded, to the extent of \$1,230,000,000?

Secretary GAGE. Yes, sir.

Mr. PRINCE. Now, you say that if the banks can not meet this and it is thrown back on the Government, the Government will take possession of the banks, their assets, and property, and, to do its duty, it would redeem this \$1,230,000,000 in gold?

Secretary GAGE. Yes, sir; until they wound up business.

Mr. PRINCE. How much gold have we in this country?

Secretary GAGE. Between \$500,000,000 and \$600,000,000.

Mr. PRINCE. Where would they get the rest of it?

Secretary GAGE. We would not need it; we can use the same over and over again.

Mr. PRINCE. Very well. I am asking for information.

Mr. MITCHELL. Mr. Secretary, the practical effect, as I understand it, of tying up this \$200,000,000 of Treasury notes and greenbacks would be as follows: Demands would be made upon the banks by the people who deal with the banks for greenbacks or Treasury notes or some form of paper money to do their business with, and they do not want gold. Is not that a fact? I ask you as a banker.

Secretary GAGE. It is a current fact; yes, sir.

Mr. PRINCE. Therefore, \$200,000,000 of paper money having been locked up in this issue and redemption department, the banks having gold in their vaults, would have to send their gold to the Government, to deliver it at the subtreasury, and ask to have their gold exchanged for these greenbacks and Treasury notes, which were locked up in this issue and redemption division. Isn't that the case?

Secretary GAGE. I think that would operate to the extent of at least one-half of the fund.

Mr. PRINCE. So, in a short time, this \$200,000,000 of paper money, which has been locked up in the Treasury Department, would be converted, by a natural process of banking business, to a large degree, into gold coin instead of paper money, and the paper money would again be out in circulation?

Secretary GAGE. In a large measure that would be true, but nobody can tell in advance to what extent it would be true.

Mr. HILL. Mr. Prince speaks of the \$200,000,000 of notes which will be refunded and become an interest-bearing obligation in place of one without interest. And I infer from his statement—although perhaps I am wrong—that he thereby thinks it would be a benefit to the banks. Isn't it true that further on in this bill you practically offset that by taking away from the banks the privilege of issuing small notes and giving that privilege to the Government? Would not that be an equivalent, and would not that also make it practically impossible for those small notes to be presented for redemption?

Secretary GAGE. I think, perhaps, I had better make a more general statement as to the scope of my idea. We have \$930,000,000 of liabilities in the form of demand obligations, counting silver certificates as obligations.

Mr. COX. And the silver.

Secretary GAGE (continuing). \$930,000,000. Now let us see where the liabilities are. We have a working balance in the Treasury of \$50,000,000. That can not hurt us.

The CHAIRMAN. \$50,000,000 of what?

Secretary GAGE. Cash—greenbacks, legal-tender notes, and Treasury notes—which is all the time in our hands.

The CHAIRMAN. That is in the Treasury proper?

Secretary GAGE. Yes, sir; we hold about \$10,000,000 locked up, that being a 5 per cent reserve of the national banks.

The CHAIRMAN. What is that in?

Secretary GAGE. Greenbacks. Then there is a total of destroyed notes variously estimated from \$10,000,000 to \$30,000,000. I estimate it at \$10,000,000. That is practically \$70,000,000 we can deduct from the \$930,000,000 to show what is liable to trouble us. That leaves \$860,000,000. Now, I propose to take out \$200,000,000 of that \$860,000,000 and put it where it won't trouble us. If we do that, we will have \$660,000,000 that will trouble us instead of \$860,000,000. I propose to make these national banks, instead of putting up \$10,000,000, which is 5 per cent on \$200,000,000, put 10 per cent on about \$500,000,000, which I estimate would be \$50,000,000. That would reduce our liabilities that we are in trouble about to \$610,000,000. Now I propose to monopolize, for the use of the Government, all the issues under the ten-dollar denomination in order that we may keep in such active use in all the small channels of circulation where money is required our obligations exclusively, and not give the banks the benefit of that market.

The CHAIRMAN. Requiring everybody to carry nine silver dollars in his pocket?

Secretary GAGE. It doesn't make any difference in my calculation here whether it is silver, or silver dollars, or what. I treat them all as one. There are outstanding \$346,000,000 of notes under ten dollars in denomination.

Mr. NEWLANDS. \$346,000,000; that is, the amount of the greenbacks?

Secretary GAGE. It happens to be the same amount; and \$52,000,000 of silver dollars. In other words, there are, say, \$400,000,000 actively engaged in the United States in performing the functions of actual trade and exchange. Now, I assume that \$250,000,000 of that is so firmly tied up in active circulation that nobody can get it away—banks, trust companies, or anybody else.

The CHAIRMAN. Tied up in the pockets of the people?

Secretary GAGE. Yes, sir.

Mr. HILL. It has to stay there in the case of a panic.

Secretary GAGE. It would stay there unless everybody were thrown out of employment, and then the people would have to take this money and spend it, and after spending it they would starve. Take that \$250,000,000 from \$610,000,000. There is left \$360,000,000, which is theoretically free to the country and which may come to the Treasury for redemption. Now, where is that money? It lies in ten thousand banks, scattered over the United States (by banks I mean trust companies, savings banks, and national banks), to say nothing of private hoards of greenbacks and other forms of paper money that are tied up in rags in corners, in handkerchiefs, and stockings, and stuffed away in cracks and crannies. There is that whole range of institutions required by law to carry reserves in legal-tender money, and under the national banking law silver certificates are classified as good in reserves as silver dollars. To protect, then, this \$360,000,000 we would have \$125,000,000 in gold with which to meet it. How much of it can get loose? [See letter, p. 385.]

The CHAIRMAN. That \$125,000,000 is to be locked up in the Treasury?

Secretary GAGE. Yes, sir; to be locked up in the Treasury to meet that liability. Now, I look at it from a practical point of view as a banker; and, from my experience and my ability to guess how human nature will act in its operations, and from the fact that the pressure that will draw these legal-tender notes of the United States out of these reserves will never operate at the same time, with the same force, in ten thousand banks over the whole of the United States, I am sure that there is no danger of that \$360,000,000 coming to the door of the United States Treasury and knocking for redemption.

The CHAIRMAN. At the same time, you mean?

Secretary GAGE. Yes, sir; at the same time or in any reasonable space of time.

Mr. JOHNSON. You are basing that upon your experience in banking—that is, in accordance with facts you have observed?

Secretary GAGE. Yes, sir; from my observation.

Mr. JOHNSON. Your theory of banking is that all claims will not be presented at once; otherwise there could not be any successful banking?

AUTHORIZING SHORT TIME LOANS.

Secretary GAGE. Yes, sir. Now, I have asked a gentleman in New York, who bears a very close relation to the Treasury, who has been Treasurer of the United States, and who has been assistant treasurer in New York for many years—Mr. Conrad N. Jordan—about this. He is in a position where he watches pretty closely the movements of foreign exchange. He has become quite an expert in it, and he reads with a great deal of accuracy the movements of gold for two or three weeks ahead. He has the benefit of a great deal of observation and experience. He says it is the last \$200,000,000 which has put us to the blush all the time, that has been our trouble. If we get rid of \$200,000,000 and get a sufficient gold reserve, we will not be troubled, and the country will not fear that we are going to break.

Now, we would want something else. I have not provided for it in this bill, because it will come in separately hereafter. The President recommends it. It is that the Secretary of the Treasury be empowered, when so directed by the President of the United States, to borrow on

short time, for any of the purposes of the Government, a sum not greater than \$100,000,000 and for a period not over one year. That power will never be exercised except in a very moderate degree, but with the knowledge in the market that that power could be exercised, with that \$360,000,000 liability and that \$125,000,000 with which to meet it, I would just as lief run the Government as run any bank with which I ever was connected, and I will say that I have been troubled during all the years I have been connected with a bank, in view of the weighty responsibility and the small percentage of cash reserve it carried with reference to its liabilities.

Mr. HILL. Mr. Secretary, I would like to ask why, in these two sections, you make a distinction between United States notes and other paper issues, if, as you before stated, all are alike redeemable in gold and are to be treated alike in their relations to the redemption fund?

Secretary GAGE. If I understand you, you inquire why I want to consolidate the greenbacks exclusively in this fund?

Mr. HILL. Yes, sir.

Secretary GAGE. That is owing to the infirmity of human nature.

Mr. HILL. And for no other reason?

Secretary GAGE. No other reason.

Mr. JOHNSON. Please state, pointedly and succinctly, just the purpose and object of section 5 and section 6, so it may appear in the record in a few words.

Secretary GAGE. That is what I tried to go over just now.

Mr. JOHNSON. What I mean is, to put that in a few words. You have done it in detail very clearly; now I wish you would state it in a few terse sentences if you can.

Secretary GAGE. The object of the two sections is to recover into the issue and redemption division \$200,000,000 of the demand obligations of the United States, whence they will not go except in exchange for gold; and to do this without contracting the circulating medium in the form of paper money.

Mr. JOHNSON. That is very happily expressed; just as I wanted to get it.

CIRCULATING NOTES ISSUED BY BANKS.

Mr. NEWLANDS. Mr. Secretary, do you provide that the circulating notes to be issued by the bank shall be legal tender?

Secretary GAGE. No, sir.

Mr. NEWLANDS. Have you any objection to it being a legal tender?

Mr. GAGE. Yes, sir.

Mr. NEWLANDS. What is your objection, if you please?

Secretary GAGE. That they ought not to be endowed with any artificial power, except that which goes with the promise to pay money.

Mr. NEWLANDS. You regard them simply as debts and not as money for the payment of debts?

Secretary GAGE. I regard them as promises to pay money, pure and simple.

Mr. NEWLANDS. You assume that the banks would issue these notes after receiving the bonds for United States notes surrendered. Is there anything obligatory upon them to issue those notes?

Secretary GAGE. Nothing except obedience to the principles of human nature which will animate them, for the sake of getting a small profit.

Mr. NEWLANDS. You rely, then, on self-interest to prevent contraction of the currency, which otherwise would result from the withdrawal of \$200,000,000 of money.

Secretary GAGE. I rely upon a principle of human nature to actuate them in taking out circulation, turning in money of ours. But we do not take in any money of ours unless they do respond to the temptation which we give them; and to the degree they respond, to that degree I do take in the money, and no more.

Mr. NEWLANDS. Then, I do not understand the bill. They only turn money into the Treasury on the condition that they issue an equal amount of circulating notes?

Secretary GAGE. Yes, sir; that is correct.

Mr. NEWLANDS. Is there anything in the bill to that effect?

Secretary GAGE. It provides that when they do bring in these greenbacks and deposit them as security, we will then give them their notes. If they do not wish to pay them out, they need not do it, but they would not bring in these greenbacks unless they expected to pay out their notes. That is their business.

Mr. NEWLANDS. Suppose the banks deliver to the Treasury the \$10,000,000 of United States notes. Do you then issue \$10,000,000 in United States bonds?

Secretary GAGE. No, sir; not immediately.

Mr. NEWLANDS. What is the process?

Secretary GAGE. I give them \$10,000,000 of their notes for our notes, with which they can do as they please.

Mr. NEWLANDS. You do not deliver them the bonds?

Secretary GAGE. We never deliver them the bonds. Afterwards, under this act, as we can work them through the printing bureau and get them into shape, I deposit the bonds with the Treasury on their account in place of the currency which up to that time is there, and take the currency over into the issue and redemption division.

Mr. NEWLANDS. I can not see, then, that that forces an issuance of the circulating notes of banks to the extent of the United States money retired. But after the notes are in circulation, then there would be nothing to prevent the bank from surrendering its money and receiving the bonds?

Secretary GAGE. Nothing at all.

Mr. NEWLANDS. So a contraction of the currency would take place in that way?

Secretary GAGE. They could do that now.

Mr. NEWLANDS. But I wanted to draw a distinction between existing conditions and this condition. Under the present condition of things the greenbacks have to be put out again. Under the new condition of things the circulating notes would take the place of the greenbacks, and the banks can surrender the circulating notes and receive other bonds, and if they do that the circulating money of the country will be reduced to that extent.

Mr. BROSIUS. The difference, Mr. Secretary, between the mode of securing gold from the Treasury under your system and the mode now in vogue, that is, presenting the greenbacks to the Treasury for redemption, is that under your system they would present bank notes to the banks, and if the banks chose to redeem them in 50-cent silver dollars the holders of those dollars would take them to the Treasury as they now take greenbacks, and demand gold, and the 50-cent dollars would all be redeemed at 100 cents by the Government.

Secretary GAGE. That would be the course then, as it is and to the extent it is now—no more and no less. This does not affect the question in any manner. Now, a national bank has the right to pay out 50-cent dollars, as you call them, and the man to whom they pay these silver dollars has a right to go to the Treasury and demand gold. What the Treasury will do is in the discretion of the Secretary, according to law. That would remain the same as it is now.

Mr. JOHNSON. And as long as silver is at par with gold there is no trouble?

Secretary GAGE. No, sir.

Mr. COX. Under section 5, I desire to call your attention to the provision of bringing in this money. It is very easy to understand why those notes are desired to be brought in. It is to protect that reserve. That is plain, but I desire to call your attention to this point, that a bank starting its organization can bring into the Treasury what we call greenbacks, or it can bring silver certificates to the Treasury, and thereupon you issue to the bank bank notes?

Secretary GAGE. Yes, sir.

Mr. COX. Up to that time it amounts simply to an exchange of money of the bank for bank notes. If the banker can bring \$100,000—say that is the capital stock—in silver certificates, he is entitled to \$100,000 of bank notes on that?

Secretary GAGE. Yes, sir.

Mr. COX. With the silver certificates out and the greenbacks recognized as a gold obligation, do you not think there is great danger that instead of presenting to you any portion of the greenbacks to obtain bank notes silver certificates will be presented?

Secretary GAGE. No, I do not think there is such a danger as that. We might get the general proportion that they bear to the other forms of money, but I hardly think we would get so much, because the banks have a larger proportion of greenbacks and Treasury notes in their vaults all the time than they do of silver certificates. The silver certificates are in the hands of the people now. They are in the hands of the people west of the Allegheny Mountains, and the banks manage, because of doubts and fears, to keep them in the hands of the people.

Mr. COX. Yes, sir. The banks have been instrumental in doing that. There is no doubt about that. Now, in the other provision of the bill—I am confining myself to the bank circulation—they can not obtain bank circulation on this money so deposited in a sum to exceed \$200,000,000.

Secretary GAGE. That is correct.

Mr. COX. That is the limit. There they have to stop. Now your idea is when this \$200,000,000, or any portion of it is deposited, thereupon this money so deposited goes into this fund that you have been speaking of, and at the proper time a bond is also put there. That represents that fund.

Secretary GAGE. A bond is substituted for the currency.

Mr. COX. Well, use that language. That meets my approbation just as well, for my question. The bond is substituted for the currency, but of course you retain the currency?

Secretary GAGE. Yes, sir; in the Treasury, and the bond goes over in trust to the Treasurer of the United States to be held as security for the bank notes. The bonds belong to the bank, subject to the lien of their notes.

Mr. COX. And when this bond is placed there, as you have described, the bank has in its possession the par value of its bonds in circulation. It amounts to that?

Secretary GAGE. If it pays its notes out; yes, sir.

Mr. COX. Now, then, at the same time you are paying that bank the interest upon that bond. Of course we do that now, as I understand it. Do you think it proper and right that you should issue a par-value bond and a bank should have circulation at a profit and at the same time the Government shall pay 2½ per cent or any interest upon that money—that money to be raised by taxation?

THE GOVERNMENT SHOULD GUARD ITS OWN INTERESTS.

Secretary GAGE. I think, Mr. Cox, that all depends on what it is for the interest of the Government to do. I do not think the Government is under any obligation of any nature, form, or kind to help banks as banks. It is our interest to look after our own finances, to protect our own Treasury, to maintain our own credit, to keep ourselves in every way respectable in the eyes of the world, and to do all necessary things to accomplish that end. If the substitution of bank notes in order to secure the immunity from the contraction of currency which would result from decreasing our liabilities, and if the reduction of our liabilities be in the interest of the Government and the people, then the step about which you inquire—the payment of interest to secure that end—is wise and legitimate, as much so as it is for a man to buy insurance or purchase immunity from his obligations, duties, undertakings, and responsibilities in any other walk of life.

Mr. COX. With that theory and that idea, does it not, in substance, amount to this: That in order to give a bank circulation in the country you pay the amount of interest as an inducement to the banks to take out a circulation?

Secretary GAGE. The banks would be very glad to take out circulation without putting up bonds at all. The putting up of the bonds is a requirement, an exaction, and a restriction upon the banks in the exercise of what formerly was a natural privilege and prerogative.

Mr. COX. One more thing on that line, because that is a question which is being raised all through the country. You know it, and I know it, too. To sum it up, the bank, under this system, will get the full face value of its bonds in circulation. So far the tax on circulation has not been touched upon at all. It gets the full face value of its bonds to make a profit on. The complaint now is that while the banks get the full face value in money—for it answers the purpose of money to bankers—the Government by taxation pays interest at the rate of 2 or 3, 4 or 5 per cent. Of course one of the inducements under the old law was to get investments in United States bonds when they were first issued. Now, when the bonds are bringing from 120 to 130 premium, should not that cease?

Secretary GAGE. The primary object is for the Government to recover \$200,000,000 of its demand liabilities and put it under more perfect control. If you can find any way of doing that for nothing, getting anybody to give it to you, I would like to find it. I do not think you can find it. If you could issue bonds to the general public and draw in this \$200,000,000 and not make them a security for note circulation at all, I would be satisfied; but the people could not stand it unless there were some form of substitution. The contraction of the currency would be more ruinous in two years than the interest on the bonds in forty years. Therefore, we must avoid that. How? The law provides that national banks may issue notes upon deposits of Government bonds as security, and that has been the law for thirty years. And, as you have opened the

subject, let me remark that it was a law never conceived in the minds of any banker on earth. It was a law conceived in the interest of the Government, by which the Government, seeing the necessity of the banks and necessity of bank-note circulation, made it obligatory upon every bank that was organized to put some part or all of its capital in United States bonds as a condition for doing business.

Mr. COX. I agree with that. Upon the deposit of this circulation that we have been speaking of—passing from the bonds—the bank obtaining that amount of circulation, would you, as Secretary of the Treasury, have any objection whatever that banks chartered by the States should have the same privileges?

Secretary GAGE. Not if they would submit to the same restrictions, limitations, and requirements as national banks are subjected to.

Mr. COX. If they had to do that, they would simply be national banks.

At this point, at 11.45 o'clock, the committee took a recess until the following morning, December 17, 1897, at 10 o'clock a. m.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., December 17, 1897.

The recess having expired, the committee resumed its session, Hon. Marriott Brosius in the chair.

STATEMENT OF SECRETARY GAGE—Continued.

Mr. HILL. Yesterday, if I remember correctly, Mr. Secretary, you stated that the first purpose covered by your bill was the more firmly fixing of the present gold standard. I do not wish to introduce political questions into this discussion, but there is one question I would like to ask you, and I have reduced it to writing, and with the permission of the committee, I will read it. You are, of course, recognized as a Republican, sympathizing with Republican principles. The platform adopted at St. Louis looked toward bimetallism as a practical principle. You advocate, and I am glad that you do, for I sympathize with you most heartily, the firmer establishment of the present gold standard, as stated in your first declaration yesterday. I want to ask you if that does not conflict with the principles enunciated at St. Louis?

Secretary GAGE. I should answer, No, sir; not as I look upon the question of bimetallism, for bimetallism must be one of two things—either two different kinds of money of unequal commercial value, circulating on an equality with each other by reason of the lower quality being made exchangeable with the higher and thus of equal value, or two kinds of money so absolutely equal in value as to circulate on a natural parity. A bimetallic “standard” does not exist anywhere on earth. A bimetallic currency, as I understand bimetallism, does exist in the United States now. The firm establishment of our system upon the gold standard, and the recognition of silver by the Government in the way of such interchangeability as may be necessary to keep it equal to gold, will better maintain bimetallism, on the general principle I have just outlined. This has, in a manner, been going on for eighteen or nineteen years. There is nothing at all in the proposition to more firmly establish the gold standard to prevent us from doing all reasonable things to accomplish such an increase in the value of silver money as

will bring it to a natural parity with gold, and thus relieve the Government from the expense of artificial maintenance and the embarrassment which has prevailed for many years, and which will perhaps prevail for many years to come in our financial system.

WHAT THE BILL H. R. 5181 WOULD DO.

Mr. MITCHELL. This bill which you propose would, in your opinion, relieve the Government from most of that artificial strain to which it has been subjected in the past?

Secretary GAGE. I think it would operate to give such confidence in the Government's ability to do what may be necessary to maintain the parity of its different kinds of money that the discrimination against silver would largely cease.

Mr. Cox. Of course that question, if it was a question, drew us off on another issue, and I am glad my friend Mr. Hill has got your indorsement on that. If the system which you approve is incorporated in this bill and carried into effect will it not result eventually in our having but one kind of paper money, bank notes, and that we will have no silver in circulation except the subsidiary coin? I mean if the bill is put in full operation and carried out.

Secretary GAGE. There is nothing in the limited measures proposed to bring about the condition of affairs that your question contemplates. It is in a direction which, if pursued by further legislation to an ultimate conclusion, might lead to the result that you suggest; I would not say "subsidiary silver," however, but rather a system of silver circulation which would be subordinate. It is a subordinate system now.

Mr. MITCHELL. May I ask the gentleman on the left [Mr. Cox] a question on that line?

The CHAIRMAN. There probably would be no objection, but I would suggest that the interrogatories ought to be directed, as far as possible, to the Secretary, and then, after we have gone through the bill with him by sections, if it is desired, the members of the committee may discuss it among themselves.

Mr. MITCHELL. I simply wanted to ask if he [Mr. Cox] would like to have \$20 silver double eagles?

Mr. Cox. We carry this money, currency, silver certificates, greenbacks, or gold into the Treasury Department and make our application, under the system that was discussed yesterday, and get the bank notes to the face value of bonds, for the purpose of banking. Now, a matter directly connected with that, which has been through the Comptroller's reports and Treasurer's reports for a number of years, is the matter of a tax upon that circulation. I desire to ask you the question, whether you would advise that the tax on that circulation should be reduced, or increased, or would you prefer that it should remain as it is?

Secretary GAGE. If you will permit me, I think that question is met in a section further on in the bill.

Mr. Cox. Very well, then.

The CHAIRMAN. Yesterday we went over six sections of the bill. I will now read the seventh section.

SEC. 7. When any national bank now existing or hereafter organized shall have deposited such United States bonds, United States notes, Treasury notes of eighteen hundred and ninety, or silver certificates to an amount of not less than fifty per centum of its capital, it shall be entitled to receive from the Comptroller of the Currency and to issue national bank notes, in addition to the fifty per centum thus provided, to the amount of twenty-five per centum of such deposits; but the circulation issued by any national banking association shall never be in excess of its paid-up

capital stock, and the additional notes so issued shall not be secured by said deposit, but shall constitute a first lien upon all the remaining assets of the association issuing such notes. Upon the failure of any association to redeem its circulating notes above provided, whether the same are issued against deposited security or against general assets, the same shall be promptly redeemed by the Treasurer of the United States. To secure the United States against any loss arising from its guaranty to pay and redeem such additional circulating notes, it shall be the duty of the Comptroller of the Currency to levy upon and collect from every national banking association issuing such unsecured circulation a tax at the rate of two per centum per annum on such unsecured circulation, which said tax of two per centum per annum shall be paid to the Treasurer of the United States in equal semiannual payments in January and July of each year; and when so collected it shall constitute a safety fund, out of which the United States shall be reimbursed for any redemption of said unsecured circulation it may make as herein provided. The safety fund thus created shall be invested by the Secretary of the Treasury in such Government bonds as he may consider advisable. Said tax of two per centum per annum shall be in addition to the tax of one-half of one per centum per annum on circulating notes hereinafter authorized.

Mr. MITCHELL. In the fourth line of section 7 are the following words: "or silver certificates to an amount of not less than fifty per centum of its capital." Is that correct?

Secretary GAGE. Yes, sir. I mean that a bank shall invest half of its capital in bonds before it can take out any of this credit circulation.

Mr. MITCHELL. Is it the intention in this eleventh line—it says, "and the additional notes so issued shall not be secured by said deposit"—to have that cover the unsecured circulation?

Secretary GAGE. Yes; that is, the unsecured circulation, amounting to 25 per cent of the amount secured.

Mr. MITCHELL. And that shall only be secured by a lien on the assets?

Secretary GAGE. Yes, by a lien on the assets and by a payment to the safety fund of 2 per cent per annum.

Mr. JOHNSON. I presume it is your idea that there can not be such a loss from the issuing of these 25 per cent notes on assets as will not readily be paid out of the safety fund you provide, and that therefore there will really be taken away from the depositors in banks no lien or security which they have heretofore had.

SAFETY FUND PROVISIONS.

Secretary GAGE. I think you are under a misapprehension. This 2 per cent is to provide for indemnifying the Government against any loss after it shall have exhausted the security which is constituted by the general assets of the bank. If the general assets were sufficient to pay the Government enough to indemnify it for this circulation, the Government would realize from that source. If the assets of the bank should be in so desperate a condition that it could not liquidate enough to pay this 25 per cent circulation, then the Government would recoup itself out of the guaranty or safety fund.

Mr. JOHNSON. Under the existing system the Government indemnifies itself in case of loss out of the bonds that are deposited as collateral security for the circulation, leaving to the depositors unimpaired the assets of the bank for their safety.

Secretary GAGE. That is correct.

Mr. JOHNSON. It seems to me that that is very likely to be urged by depositors as an objection to this scheme—that it robs Peter to pay Paul; that while it secures the note holder, and also secures the Government, yet it leaves the depositors exposed to loss, and deprives them of the

security which under the present system they enjoy. It has been repeatedly urged upon me as an objection when I have advocated something like the Baltimore plan.

Secretary GAGE. Your consideration, I think, is a very timely one. It has occurred to me, and that is why I think a step in that direction ought to be a very careful one, and why I limit it to 25 per cent instead of a larger per cent. In former times, before the national banking system was established, it was a common practice for banks to issue their circulating notes, and they were a lien up to 100 per cent on their capital. National banks have become accustomed now to another system, and all note holders are accustomed to it—a system by which the circulating notes are secured by bonds in the hands of outside trustees. It has the advantage of security, but it has disadvantages of all kinds. I can not go into it very deeply now.

A change from that method to another method of circulating notes upon the assets of a bank must be made in such a way as not to work disaster. It must be tried. If it should appear that in ten years this 2 per cent tax upon the circulating notes of banks furnishes a fund amply sufficient to provide for all circulating notes of failed banks without any lien upon their assets, that feature of the law could be stricken out. When everybody is satisfied that it is so, it may be modified so that this safety fund, so far as it had been gathered from the banks, should be applied first to the redemption of their notes, and the Government's liens upon their assets exercised only for the balance. I think the important thing is not to make this law so menacing to the depositors and general creditors of a bank as to frighten them, and I do not think 25 per cent will.

Mr. JOHNSON. I heartily agree with you in your view of the subject. I think the advantages gained by your system appear very great over the existing system. At the same time there is really no menace to depositors, because your bill is so carefully graded as to the amounts. But I wanted to draw you out a little on this, so it would be plain to those who read this record.

Secretary GAGE. I might add, for general information, as we are making a record here, that I went carefully over the Comptroller's books to see what the result of such a system would have been in the past. The past is never an absolute guide for the future, but it is an approximate guide. Out of all the national banks that have been organized since the beginning of the system, 330 have failed. Of these all paid in liquidation a sum much more than was necessary to redeem this 25 per cent of circulation, had they had it outstanding, except 18 banks.

These 18 were such examples of mismanagement or wickedness that they did not pay enough, the assets did not liquidate enough, to have taken care of the 25 per cent of their circulating notes if they had had them out, and the depositors would not have received a cent in that case, and the Government's guaranty would have been called upon. To make its guaranty good, it would have been necessary for the Government to have taken out of the safety fund to supplement the assets of the 18 banks the sum of \$194,000. That would have redeemed all these notes, but I found that if these 330 failed banks, to say nothing about the banks that had not failed, had taken out their 25 per cent, as we contemplate here, and had kept it out during the average period of their existence, which was about eight years, they would have paid into this guaranty fund the sum of \$2,600,000, which would have been ample from which to draw \$194,000. So, from the Government's standpoint, it would have been a safe proposition.

Mr. JOHNSON. These facts are set out in your annual report, are they not?

Secretary GAGE. Yes, sir.

Mr. JOHNSON. Under your bill the ultimate liability for failed banks would fall under this safety fund, provided by the banks generally that contributed to this safety fund?

Secretary GAGE. Yes, sir; it would during the existence of that fund.

Mr. JOHNSON. Do you not think that would be regarded by the banks as an insuperable barrier to entering into this arrangement?

Secretary GAGE. No, I think not; because they would know how much they would have to pay. They have to pay so much on their circulation, and they take no risk for anybody else. They only pay on their own circulation.

Mr. JOHNSON. The fact that the tax on their circulation is reduced would all the more enable them to make a contribution to the safety fund?

Secretary GAGE. Yes, sir. A bank is responsible for no circulation but its own. The banks are willing to stand responsible for their own, and pay taxes, but they would not be willing, I believe, under any system, to issue circulation and then be assessed from time to time additional amounts to make good the debts of others.

CREDIT NOTE SYSTEM.

Mr. HILL. Do you think the large reserve banks of the country would avail themselves of this credit note system?

Secretary GAGE. No, sir.

Mr. HILL. Do you think, in your experience as a banker, not as Secretary of the Treasury, that as a matter of fact the large reserve banks of the country do frequently have to carry the smaller banks?

Secretary GAGE. They do to a considerable extent.

Mr. HILL. Do you think, then, they would object to this credit note system, as giving to the country banks a first lien upon all their assets for these reserve notes and thus imperiling their claims against the country banks?

Secretary GAGE. I do not think they would object on that ground at all, because they always make sure they themselves have a good lien on assets before they take care of the country banks.

Mr. HILL. I have here the Treasury statement of December 1, 1897, of the outstanding paper money issued, and I find that if the \$200,000,000 had been drawn into the reserve fund the situation would then have been an increase of paper issues all told of \$136,000,000.

Secretary GAGE. That is about correct, if all the banks had issued the 25 per cent credit notes contemplated.

Mr. HILL. I want to ask you if that whole increase will not press directly upon the \$125,000,000 of gold in your redemption fund?

Secretary GAGE. It can not press any harder than they can find the Government bills to press with. That is one thing. Another answer would be that it is by no means certain they could keep out \$134,000,000 if they tried. The bill contemplates, a little further along, several places for the redemption of national-bank notes. Now, all the national-bank notes come to Washington. It is an awkward place to have them come, anyway. The Government hires clerks who sort these notes, and it is all done under one roof here in Washington. My bill contemplates that all these notes may be presented at the subtreasury in New York,

if they accumulate there, without being sent to Washington, and at any other subtreasury which the Comptroller, with the consent of the Secretary of the Treasury, may name.

That other subtreasury would be a natural central point for that particular district of country where a group of banks may be located, so that the work of redemption, sorting, and all that sort of thing, instead of being carried on under one roof here, would be carried on in as many places as there are subtreasuries, and the tendency would be—as national bank notes are to be of the denomination of \$10 and upward—to return them home for redemption. The tendency would be that way. And as they would pay 2 per cent tax, there would be no use in paying that tax unless they could be kept out, and the volume would soon find an equilibrium. The country will take about so much, as a sponge will take about so much, and no more. The surplus will run somewhere. The gold will run across the Atlantic or the notes will run back to the issuer.

Mr. HILL. I do not know but that answers my question, but I would like to get it a little clearer. You propose to take \$200,000,000 of Government notes and put them in the issue and redemption bureau. Now, for those will be substituted \$200,000,000 of national-bank notes?

Secretary GAGE. That is even, so far.

Mr. HILL. Yes. You have made the redemption of national-bank notes more easy by multiplying the redemption points and more liable by increasing the size of the notes?

Secretary GAGE. Yes, sir.

Mr. HILL. How have you released the Government of any liability of redemption in that exchange of the \$200,000,000? It seems to me you have made it still more easy to drain the Treasury of gold. For instance, if a company of men wish to get \$200,000,000 of gold from the Government, instead of getting gold for greenbacks, why wouldn't they take bank notes and redeem them in lawful money, and then call for the gold with their lawful money?

Secretary GAGE. In the first place they would have to get the lawful money. They have to find that lawful money. As fast as these notes are presented for redemption, the difficulty of finding the lawful money will increase. They must provide the lawful money. If they do find it, there is no way for the Government to escape payment of its lawful obligations.

Mr. HILL. They will get notes or silver, will they not?

Secretary GAGE. From whom?

Mr. HILL. From the banks; or else the bank fails.

Secretary GAGE. Yes, sir; and if the bank can not provide legal-tender notes, Treasury notes, or silver, it will have to provide gold. It will provide that which is easiest, of course, as anybody else will do. But I contemplate that under my bill I will diminish the lawful money \$200,000,000. I will make it relatively scarcer than it is now. It is a more convenient form of money than gold for banks and everybody to use. I will make lawful money so relatively scarce—it will not be absolutely scarce, but relatively scarce compared to what it is now—that the banker, having both gold and paper money, fearing that if he parts with his lawful money he may have trouble in getting it back, will part with the gold in preference, and not discriminate in the other direction, as he has always done before.

Mr. MITCHELL. Will he not part with the gold to the issue and redemption bureau in order to get his greenbacks?

Secretary GAGE. That is a matter of judgment. I think he will.

Mr. MITCHELL. So the issue and redemption division will have its gold reserve increased by the very actions of these national banks?

Secretary GAGE. I think so.

Mr. HILL. The same state of facts would exist also in regard to the \$250,000,000 of small notes which would be exchanged for larger notes of national banks. There would be larger notes of national banks which would put aside the smaller notes of the Government, taking their place in the pockets of the people. That also would make a larger demand for lawful money?

Secretary GAGE. Yes, sir.

Mr. HILL. And then this credit-note issue of \$130,000,000 would still further make a demand for lawful money?

Secretary GAGE. I think so.

Mr. HILL. And your idea, as I understand it, is that it would be easier to get gold than the lawful money, and consequently would bring banks to a gold redemption of their own notes without calling upon the Government?

Secretary GAGE. That is correct. That is the direction in which it will operate.

GOLD AND LAWFUL MONEY.

Mr. PRINCE. I want to get clearly in my mind what you mean by the expression "gold and lawful money."

Secretary GAGE. Of course, you know what gold is. Lawful money is any money clothed by the law with the power to pay debts.

Mr. PRINCE. Then, do I understand you correctly when I say that legal-tender notes, Treasury notes, and silver would go under the definition of lawful money?

Secretary GAGE. Yes, sir.

Mr. PRINCE. Gold defines itself?

Secretary GAGE. Yes, sir.

Mr. PRINCE. You make a distinction between gold and lawful money?

Secretary GAGE. Yes; merely for the sake of distinguishing it in our talk here.

The CHAIRMAN. And that distinction is necessary from the fact that what you call lawful money is redeemable in gold.

Secretary GAGE. Perhaps so. But of course gold is also lawful money.

The CHAIRMAN. But there are two kinds of money, and you have to make that distinction, because gold is the money of ultimate redemption?

Secretary GAGE. We have used these terms to keep in our minds the two kinds of money.

The CHAIRMAN. As you have used the terms, there is that distinction between gold and lawful money in that other kinds of lawful money are redeemable in gold.

Mr. PRINCE. Then do I understand you, in answer to the chairman, to say that lawful money, as distinguished from gold, is all redeemable in gold ultimately?

Secretary GAGE. Not by its express terms. Silver is not.

Mr. PRINCE. Is it by practice?

Secretary GAGE. It is by practice, sufficiently to keep it on a parity with gold.

Mr. NEWLANDS. Mr. Secretary, I understood you to say that lawful money is the money clothed with the power to pay debts. Would you regard the circulating notes, then, as lawful money?

Secretary GAGE. You mean national-bank notes?

Mr. NEWLANDS. Yes.

Secretary GAGE. I regard them as lawful money, and I want to amend my definition to say that any money is lawful money that is issued in conformity with law. National-bank notes are lawful money because they are issued in conformity with express statutes. They are lawful money in the other sense because they are legal tender to all banks in payment of all debts. So it is a quasi legal tender, not to the public, but to the banks in payment of debts.

Mr. NEWLANDS. If I should loan you, then, \$1,000 in these circulating notes, national-bank notes, and should take your note for the amount, could you subsequently compel me to accept those circulating notes in payment of that note?

Secretary Gage. No, sir.

Mr. NEWLANDS. Circulating notes, then, have not the debt-paying function as between individuals?

Secretary GAGE. They have not.

Mr. NEWLANDS. To what extent does your bill contemplate the issue of these circulating notes, both secured and unsecured? I mean how much could possibly be issued if all the banks availed themselves of this privilege?

Secretary GAGE. There would be in existence, if my bill were carried out and became a law, about \$1,120,000,000 of bonds of the United States. If the banks could get all of those bonds, they could issue \$1,120,000,000 of circulating notes by depositing those bonds with the Government. They could then issue 25 per cent of that amount in this free circulation, as we may call it, which would be 25 per cent more, substantially, \$300,000,000. But that is raising up a specter and not a reality.

These bonds are held by private investors, savings banks, trust companies, insurance companies, guaranty companies of every kind, people on this side of the Atlantic, and, to some extent, by people on the other side of the Atlantic, and any effort of the banking interests to get under their control any very large amount of these bonds would raise the price so much as to take out all possible profit in the operation, and that would be a natural check to the movement which I have outlined as among the possibilities. That will be the natural check to an extension of the national-bank note currency. The present market price of bonds of the United States is very nearly in a state of equilibrium. Very few of them are being sold or exchanged. An effort to buy any great quantity of them would raise the price, and as the price of the bonds increases of course the reward in the way of interest on the investment diminishes. The margin of profit to the bank under these propositions is not large, and one of the fears that I have heard expressed by a gentleman in this committee, who is an excellent critic—as he is not present, but I will mention his name, Mr. Walker—is that the operation of this would raise the price of bonds so high that it would be inoperative, and the national banks would fail to come up and respond, as theoretically they ought to do, to fill the requirements of circulation to meet the necessities of commerce and trade.

PROBABLE CIRCULATION UNDER H. R. 5181.

Mr. NEWLANDS. You have stated the possible circulation that could be created under this act. What would you regard as the probable circulation?

Secretary GAGE. Increase from the present volume of circulation, do you mean?

Mr. NEWLANDS. Just state, if you please, what the present volume is, first.

Secretary GAGE. \$220,000,000, substantially in national-bank notes.

Mr. NEWLANDS. And the increase would be what?

Secretary GAGE. I think it would be from \$300,000,000 to \$330,000,000. Whether it would remain so high is another question.

Mr. NEWLANDS. Do you mean the increase itself would be \$330,000,000?

Secretary GAGE. I think so.

Mr. NEWLANDS. So we would have about \$550,000,000 in all of national-bank notes?

Secretary GAGE. Yes, sir.

Mr. NEWLANDS. The real increase, then, in the demand notes of the country would not be \$330,000,000, but \$120,000,000, as \$200,000,000 would take the place of the demand obligations of the Government which are retired?

Secretary GAGE. That is about the way I figure it out.

Mr. JOHNSON. Do I understand you that you include in this increase what would come from the safety-fund provision as well as that which would come from the other?

Secretary GAGE. Yes, sir; I include everything.

Mr. NEWLANDS. We were speaking of lawful money, and you amended your first definition, which was that lawful money was money clothed with the power to pay debts, by stating that lawful money was any money that was authorized by the law. In the creation of debts the practice has been increasing in this country, has it not, of making debts payable according to the terms of the contract in gold?

Secretary GAGE. If such is the fact, I have not observed it in my experience. Where I have lived that has not been the practice except on long time mortgages, in which I have never dealt.

Mr. NEWLANDS. Well, such contracts are made in this country, are they not, both on long and short time mortgages?

Secretary GAGE. Yes, sir.

Mr. NEWLANDS. Take such an obligation payable by its terms in gold. I understand it would not be in the power of the debtor to tender these circulating notes to the bank in payment of such a debt. Is that so?

Secretary GAGE. I understand that to be so.

Mr. NEWLANDS. Would it be in the power of the debtor to tender greenbacks, United States notes, in payment of such a debt, according to your judgment?

Secretary GAGE. I do not know what the Supreme Court would finally say about that. I do not suppose it would be a compliance with the contract.

Mr. NEWLANDS. Would it be in the power of a debtor, owing upon a gold contract, to tender United States Treasury notes?

Secretary GAGE. The same answer that I made to your last question will apply also to this.

Mr. NEWLANDS. And that would apply also to silver certificates and to silver, would it not?

Secretary GAGE. I so understand it.

Mr. NEWLANDS. Then, does it not lie in the power of those to whom debts are made by written contract to practically deprive the lawful money to which you have referred of its debt-paying function?

Secretary GAGE. It is mutual between two parties to contract to waive the privileges that the law gives. It would be equally true if they made the contract in silver dollars.

Mr. NEWLANDS. You say that it is not within your experience that creditors are requiring current obligations to be payable in gold, but that requirement does apply to long-time obligations. Is that practice increasing with reference to long-time obligations?

Secretary GAGE. I am hardly familiar enough, Mr. Newlands, with that line of operations to speak positively. I think that perhaps it is increasing. It has been the tendency, if my observation and the reports that have come to me during the last four years are correct.

Mr. NEWLANDS. Do you think that the tendency to make such obligations will increase?

Secretary GAGE. Not if people have confidence that the Government will redeem its obligations and maintain the parity of the different kinds of money.

Mr. NEWLANDS. You think that such a tendency arises from the distrust as to that?

Mr. GAGE. Purely.

Mr. NEWLANDS. Do you not think it would be a wise thing for the Government to prevent the practical demonetization of the lawful money to which you have referred by preventing gold contracts either from being made or from being enforced?

Secretary GAGE. I do not. I do not think it is best for the Government to interfere.

Mr. STALLINGS. Does your bill provide that the national banks shall redeem their notes in gold?

Secretary GAGE. It does not.

Mr. STALLINGS. Do you think it ought to?

Secretary GAGE. After consideration I think it is indifferent whether it does or not. The reason I did not put it in was that I do not believe the Government, as an issuer of notes, ought to recognize any money on earth as better than its obligations, or discriminate against itself or its obligations. If they say that greenbacks or any of the Government's obligations are not good enough for something, but gold is, they thereby cast a reflection upon their own notes. Besides, I think it would be purely immaterial. If you make the banks redeem in gold, then the banks must get the gold to redeem with. If they have the obligations of the Government, you may make it necessary for them to present the notes to the Government with which to get the gold to redeem their notes, whereas if the law is silent in that respect they may redeem their notes in gold; they may redeem them in greenbacks or in Treasury notes. The party to whom they pay the greenbacks or the Treasury notes may want gold, and if he does he will go to the person who issued the note.

In this case the Government issued the note, and so he would go to the Government and get it, or he may not. And therefore it does seem to me expedient from all points of view, practically and theoretically, not to put that in the law. The banks, if they find difficulty in maintaining other forms of legal money that will discharge debts, will have to carry gold. They have now in their possession in the country some \$240,000,000 of that kind of metal, which is a pretty fair supply to start with.

Mr. JOHNSON. Mr. Newlands has asked you about the legal-tender qualities of certain classes of money, and you have answered that a debtor could not compel a creditor to take it. There would not be any question about the creditor taking it in the event that it was good sound money, would there?

Secretary GAGE. I do not think there is. I never heard of these

contracts that are made payable in gold alone until within the last two years. Within the last two years, as a bank officer, I have been visited several times by persons having gold contracts, who asked to be supplied with gold against their checks because they had contracts coming due in gold, and the creditors required them to lay down the gold. In answer to your question, except for distrust and fear operating on the mind of the creditor, he would, I verily believe, have been perfectly satisfied with a certified check on any respectable bank.

METHOD OF REDEMPTION.

Mr. COX. To summarize this, and put it in a plain shape for everybody, as to the process of redemption, etc., we will assume that a bank note is out in circulation and the holder of it desires to have it redeemed. He presents it to the bank that issued it, but he has no authority to demand the gold from the bank, as I understand it.

Secretary GAGE. He has not, under the law.

Mr. COX. Would he have under this bill, if it becomes a law.

Secretary GAGE. He would not.

Mr. COX. The result of that is, then, if he presented his bank note he could not obtain the gold from the bank, but if he presented the greenback note to the Government he could obtain the gold?

Secretary GAGE. That is correct.

Mr. COX. When the bank note follows its process along until it reaches its redemption in the Treasury of the United States, does your bill propose to redeem that bank note in gold or other money at the option of the holder of that note?

Secretary GAGE. In the case you suppose the note is redeemed at the counter.

Mr. COX. No; they refused to redeem it.

Secretary GAGE. You supposed he redeemed it in a greenback, and he took the greenback and went to the Government.

Mr. COX. He takes the note, or a bundle of notes, to the bank, and the bank refuses to redeem them in gold. He still holds those notes. Now, under your bill, is not the process incorporated into this, that a man can have those bank bills redeemed by the Government?

Secretary GAGE. Yes; he could send to the Government and get those notes redeemed.

Mr. COX. I so understood it all the way through. Now, he could take the bank notes, the bank refusing to redeem them in gold, to the Government—take the same notes to the Government—and the Government would be bound to redeem them in gold if he demanded it?

Secretary GAGE. It would be bound to redeem them in greenbacks or gold; yes. He could take the greenbacks and turn around and draw the gold, so it would be practically a redemption in gold.

Mr. COX. In other words, he could take the notes of the bank and go to the Treasury of the United States and the Government, under this bill, would be obliged to redeem those notes in gold?

Secretary GAGE. Substantially, yes.

Mr. COX. Suppose he goes to the bank with these notes, and the bank offers to redeem the same batch of notes with silver, and the holder of the notes declines to take silver, and then he presents them to the Government of the United States for redemption; doesn't the same process follow, that the Government would have to redeem them in gold?

Secretary GAGE. Substantially, I think. But, mind you, the Government is not redeeming those notes on its own account. The Government is redeeming them on account of the bank.

Mr. COX. I understand that.

Secretary GAGE. Then the bank would have to account to the Government, and reimburse it.

Mr. COX. Certainly, and I take it that the Government would demand reimbursement in the same kind of money the Government had redeemed the notes in?

Secretary GAGE. No, sir. If the bank had satisfied its legal liability to the Government and recouped the Government with any form of money that the Government recognized—greenbacks, Treasury notes, gold, or silver—that, I think, would be sufficient.

Mr. COX. Then the Government in the first step of redemption redeemed the kind of notes I have spoken of in gold, and its obligation is such that you think it necessary to maintain the parity to redeem them in gold if the holder desires gold, but when the bank which has got from the Government the benefit of banking comes to pay the Government the bank can pay the Government off in any kind of money?

Secretary GAGE. Whose fault is that? That is the situation the Government is in, and going deeper does not get it out.

Mr. COX. I would redeem those notes in greenbacks or silver or gold, as the Government pleased.

Mr. JOHNSON (to Secretary Gage). You have possibly fallen in the mire there.

Secretary GAGE. Possibly so. I am a little suspicious of my interpretation of that.

Mr. JOHNSON. What law is there to require the Government of the United States to redeem national-bank notes in gold?

Secretary GAGE. There is no law; but we have to redeem them in lawful money. We have to redeem them in something, and if it were so that a holder of these notes could go to another window and secure gold, it would be substantially as Mr. Cox says.

Mr. JOHNSON. Then they would raid the Treasury of the United States with national-bank notes instead of greenbacks.

Secretary GAGE. They could raid it only 10 per cent, or, in fact, when they raided it 2 per cent, the Government would be after the bank to recoup it for what it had done on its account, and the bank would have to give the Government something in recoupment. Now, the question is raised, could not the bank recoup the Government by giving it its own obligations? I say yes, it could if it could get its notes. If it could not find enough of the Government's obligations, including silver, for the sake of argument, then it would have to provide gold, and I want to put it in a position where logically it will have to furnish the larger part of it in gold.

Then there is another proposition which I think ought to be referred to. Notes are not redeemed that way, except in very rare instances indeed. The redemption of national-bank notes goes on through well-established agencies. They are not redeemed in gold; they are redeemed in each other. You are a bank and I am a bank, we will say. I get a thousand dollars of your notes, and I send them to a redemption agency. I think I am going to get some lawful money out of that transaction, but it has a thousand dollars of my notes and gives them to me for the one thousand dollars of your notes I sent to it. So these notes cancel each other.

Mr. COX. Consequently you get back your own notes?

Secretary GAGE. Yes, you get back your own notes, and the circulation is reduced \$2,000, and there has not been a dollar of money used at all. That is the way note redemption goes on, and not by the other process.

Mr. COX. If you paid back one and not the other, and I sent in the notes, that could not avail unless you had my notes?

Secretary GAGE. No; but I would be as apt to have yours as you would be apt to have mine.

THE RESERVE FUND.

Mr. FOWLER. Under your plan, as I understand it, the banks of the country could deposit your reserve fund in either greenbacks, Treasury notes, or silver certificates, could they not?

Secretary GAGE. Yes, sir.

Mr. FOWLER. Would there not be, under the pressure now felt in this country, a tendency on their part to get rid of the poorest of those three kinds of money and instinctively deposit silver certificates. Would not that be the tendency?

Secretary GAGE. That would be the tendency unless their faith in those notes is strengthened. I think this would be apt to strengthen their faith in that direction. Consequently the proposition which I make, and with which I think the other gentlemen are acquainted, involves the issuing of these silver certificates in denominations of less than \$10, which would tie up in the absolutely necessary circulation of the country in the hands of the people the larger part of the silver money, and take away the power of the banks to do the thing you contemplate.

Mr. FOWLER. Let us assume, however, in going through this, that the banks would tend to pay into your reserve any legal-tender money, say in silver certificates. The result, then, is that there would be outstanding, mathematically, \$346,000,000 of greenbacks, \$115,000,000 of Treasury notes, approximately; and you have left \$136,000,000 of silver certificates in the place of the \$200,000,000 of silver certificates which have been deposited by the banks and are not a legal tender and can not draw gold; and in place of that you would have \$200,000,000 of national-bank notes, would you not?

Secretary GAGE. Outstanding? On your hypothesis; yes, sir.

Mr. FOWLER. Very well, then. Now, is it not true, as has been demonstrated by the inquiries of Mr. Cox, that whenever a man went to the United States Treasury for his redemption, he would get either gold or a substitute for gold? That is true, is it not?

Secretary GAGE. Yes, sir; that is a fair statement.

Mr. FOWLER. Then, is it not true that, instead of having as now \$346,000,000 in greenbacks and \$115,000,000 of Treasury notes, which are the abstractors of gold, you would add to \$346,000,000 and that \$115,000,000 and the \$230,000,000 of present national-bank notes \$200,000,000 more of successful abstractors of gold from the United States Treasury?

Secretary GAGE. Is that your question?

Mr. FOWLER. Yes, sir.

Secretary GAGE. I think not; and I will tell you why. If you will examine the amount of silver and silver certificates that the banks of the United States have on hand—I have not the figures here, but they are somewhere in the Comptroller's reports—you will find they have not over \$50,000,000.

Mr. Cox. The banks only hold about \$50,000,000 of silver.

Secretary GAGE. If they deposit this currency and it comes into the redemption division, under the provisions of this act the Secretary has the right to exchange any of the notes in this issue and redemption division with the funds of the other department, and, assuming now that \$50,000,000 or \$100,000,000 of silver certificates came originally into the issue and redemption division, as you were talking about, by so much that kind of money would become scarce in the community. The current revenue receipts of the Government are going on at the rate of a million and a quarter of dollars a day in some money, and so much less would the receipts be in silver certificates. They would be in some other form of money, and the Secretary of the Treasury would make exchanges. He would go over into the other department and take back the kind of money we contemplate getting, the current expenses would be paid out in that form of money, thus transferred to the general fund, and we would again put that money into circulation.

It is easy to conjure up difficulties and get confused with details, and it is very hard to meet every hypothetical suggestion about some details, whether it is about traveling or making bread or something else.

POSSIBILITIES OF THE PROPOSED LEGISLATION IN A CRISIS.

Mr. FOWLER. I am not dealing with hypothetical questions, but a sad experience which we have had in the last three years. Let us go a step further. If it is true that you have added to the abstractors \$200,000,000 of that money, which to-day makes drafts upon the Government for gold, what defense has the Government against that draft? You have stated that whenever the Government attempts to recoup for that gold which it has paid out, the bank to which it sends its notes can then pay the Government in lawful money?

Secretary GAGE. If it has it.

Mr. FOWLER. Would it not be the most natural thing in the world for the banker—and I am asking you as a banker—to send in silver, Treasury notes, or certificates rather than to send in gold?

Secretary GAGE. It would depend, as I have said, upon two considerations—what relative supply he had of each and what respect he had for them, that is, his confidence in them. If he thought the gold was safer and better for him to have he would send the other if he had it.

Mr. FOWLER. That is the point exactly. Now, is it not a fact that we are drafting a bill, not to cover normal conditions, but to cover crises, and is it not true that whenever a crisis is on, such a crisis as we had in 1893, practically no money at all passes between people; and if it were thought that there is a chance of the Government not being able to redeem its obligations, would not everybody press the Treasury for gold, and if it is true, is it not true also that every bank would reserve its gold and pay out the paper money?

Secretary GAGE. In such condition of distrust of the standard, yes, sir.

Mr. FOWLER. Then there is no way in this system whereby the Government in a crisis can recoup one dollar of gold for all the gold paid out, is there?

Secretary GAGE. I do not see why there is not. They have to take the reimbursement in their own debt or gold—one or the other.

Mr. FOWLER. But the outstanding debts might amount to \$500,000,000. So the time they could actually get gold would be after they had impounded \$500,000,000 of their own money into the United States Treasury, and then we would do just what Mr. Cleveland did—

continue to impound, drawing it from the surplus of trade so as to prevent anybody getting it, and of course it might not reach \$500,000,000, but it might reach \$250,000,000 or \$300,000,000 if the panic was acute enough.

Secretary GAGE. I do not know how to avoid the risk of the Government's responsibility except to cancel its debts and not owe anything. Then there would not be any trouble of the kind you suggest.

Mr. MITCHELL. I would like to make one suggestion, with the permission of the chairman, as to the method of procedure in this matter. We are here, I believe, to discuss this particular measure, this particular bill, and it seems to me that we should keep the discussion down to the sections of the bill as they are read.

The CHAIRMAN. The chair does not desire to curtail what any member may desire to say, but owing to the lack of time I think it would be well to go through the bill first, confine our remarks to the sections as we take them up, and make the questions as brief as possible.

TEN PER CENT REDEMPTION FUND.

If there is no further discussion on section 7, I will read section 8:

SEC. 8. That each national banking association shall deposit and maintain in the Treasury of the United States a sum of lawful money equal to ten per centum of its aggregate circulation, said sum to be in lieu of the five per centum redemption fund now required by section three of the act approved June twentieth, eighteen hundred and seventy-four, to be maintained, and to be subject to all the provisions of existing law respecting said redemption fund not inconsistent with the provisions of this act; and in consideration of the deposits of bonds, United States notes, Treasury notes of eighteen hundred and ninety, and silver certificates, and the tax of two per centum on the unsecured circulating notes of national banking associations, and of the deposit of lawful money provided in this section, the faith of the United States is hereby pledged to the redemption in lawful money of the United States of all the circulating notes of said national banking associations.

Secretary GAGE. The only question would be as to whether the percentage should be 10 or 5 per cent.

Mr. HILL. That is the question I wanted to ask. Why do you make it 10 per cent instead of 5 per cent, as now?

Secretary GAGE. We find that 5 per cent is not quite adequate. We find that practically we do not have 5 per cent on hand all the time; that owing to some of it being in transit back to the banks, the average is perhaps only 3½ per cent instead of 5 per cent actually in the hands of the Government. Ten per cent is a stronger and better protection. That is one reason. Then, another reason is that it would by so much absorb into the hands of the Government its own obligations. It increases that sum from the present fund of \$10,000,000 to the sum of \$50,000,000, if it were possible to take out \$500,000,000 of circulation, as we have theorized might be the case.

Mr. HILL. Under the extreme conditions of the bill four-fifths of that circulation would be secured by bonds?

Secretary GAGE. Yes, sir.

Mr. HILL. The Government would hold that secured. It is not needed to have 10 per cent security as a matter of security of Government, is it?

Secretary GAGE. It might be.

Mr. HILL. Under what conditions could it possibly be that the Government would require an additional 10 per cent over the full face value of their bonds.

Secretary GAGE. The bonds might decline in value. The additional 10 per cent might be largely in transit.

Mr. HILL. Does not the Government have the power to reduce that security, if the bonds should fall, or call for that additional reserve?

Secretary GAGE. Yes, sir.

Mr. HILL. This is a part of the deposit as it stands now, is it not? It is counted as part of the 15 per cent reserve against deposits?

Secretary GAGE. I do not know that I remember about that.

Mr. HILL. If you take 10 of the 15 per cent, you lock it up from the banks and take away from the security the depositors have. Does not that weaken the banks just so much?

Secretary GAGE. It does not operate against the depositor.

Mr. HILL. It is a part of the deposit reserve, is it not?

Secretary GAGE. In the figures of the bank, yes; but as all the assets of the bank are liable for the redemption of this 25 per cent, this 10 per cent in the hands of the Government would be available; by so much, in the other aspect, it would release the Government. So it is as broad as it is long.

Mr. HILL. That is a feature I am personally objecting to. In the first place, the Government is secured by the bonds on four-fifths of the notes. It seems to me that if the 5 per cent reserve was left, as it is now, against the secured notes and the 10 per cent held against the credit notes it would be so much the better.

Secretary GAGE. I thought of that proposition, but it is a little hard to keep books on that subject, and after thinking about it I thought the banks could afford to put up 10 per cent. The conditions are easier to them now than they have been, both in the matter of tax and in the matter of margin. Now, when a bank takes circulation, we tie up for it 14 per cent premium and 10 per cent margin on bonds, which makes 24 per cent; 5 per cent redemption fund, 29 per cent. We propose to allow them under this provision to issue circulation to par of the bonds, which does away with the 10 per cent margin now required. We give them a class of bonds that will not go to a very large premium—they will probably go to a premium of not more than 3, or 4, or 5 per cent—and they can better afford to put up the 10 per cent under such conditions than 5 per cent under the present conditions. After looking it over and thinking about it I came to the opinion—although I will yield to the judgment of others—that we had better hold them up to 10 per cent. We can make it easier later if it be desired.

Mr. HILL. I think this would antagonize the bill in the minds of a good many people. Take banks outside the reserve cities which are required to put up 15 per cent. Two-fifths of that reserve is kept with the reserve banks as a rule, because they draw interest on it. Three-fifths is supposed to be kept in the banks; but against the three-fifths this 10 per cent is counted a part and held by the United States Government. So it takes out from the actual strength of the banks just so much as you increase the old reserve of 5 per cent. Is not that true?

Secretary GAGE. Yes, sir; and because it is true I would be in favor of excluding them from counting in this 10 per cent.

Mr. HILL. It would seem to me that that would weaken it.

Secretary GAGE. It would weaken the actual cash on hand, yes, sir.

Mr. HILL. Do you think it would be wise not to have this counted as a reserve against deposits?

Secretary GAGE. I think it would be an improvement.

Mr. HILL. Leaving the question of reserve against deposits out of

consideration, would it not be better to have the 10 per cent only against the credit notes? As a matter of fact, does it make any difference to the Government at all on the secured notes whether they have any reserve or not, except as a question of interest?

Secretary GAGE. I think that suggestion is well worth considering. I would like to give it a little more thought, rather than answer now.

Mr. HILL. I wish you would, because I think that is the serious objection in the minds of a great many people.

Mr. McCLEARY. I would like to inquire the purpose of the last few lines of that section—the words “the faith of the United States is hereby pledged.”

Secretary GAGE. That is to make it plain and explicit—to make plain what is now in the law. That is all.

Mr. McCLEARY. It is, in fact, the practice now?

Secretary GAGE. Yes, sir.

Mr. McCLEARY. And this makes it explicit?

Secretary GAGE. That is all.

Mr. COX. From the question suggested a moment ago, under the process proposed by you how much would be deposited and held back by the banks at different places as reserves, taxes, and safety fund; what would be the amount of that fund?

Secretary GAGE. The fund the Government would have on hand?

Mr. COX. The whole of the expense attached to the circulation of the banks taken out under your law. There is 10 per cent, and then there is the tax on circulation—

Secretary GAGE. Of 2 per cent.

Mr. COX. Yes, sir. Please aggregate that. I want to get a statement of what is the actual cost, the rate per cent of cost to the bank, on circulation. In other words, how many cents on the dollar, deducting these expenses in circulation, would the bank get for its own use?

Secretary GAGE. If I understand your question, Mr. Cox, they would get back 90 per cent in their own notes—the privilege of using 90 per cent of their own notes. The 2 per cent tax they would probably pay out of money that those notes would earn, or else they would not use them. So, if I understand your question, the banks would realize 90 per cent.

Mr. COX. On that there would be the 2 per cent tax, according to the amount of average circulation they took out. They have then the 90 cents on the dollar, we will call it, for the present, for bank purposes, and the bond is reduced in its value by reducing premium?

Secretary GAGE. Yes, sir.

PROFIT ON CIRCULATION.

Mr. JOHNSON. The question in my mind is whether or not under the provisions of your bill as it is now drawn there is sufficient profit in circulation to induce banks to take out circulation. You reduce the tax on circulation and allow them to issue the par value of bonds. That gives them advantage over the present system; and then, it seems to me, you counteract that, for you require a contribution to the safety fund, and you also increase the amount of deposit in the redemption funds. Have you made any calculation to ascertain what the effect of that would be?

Secretary GAGE. No, sir; I have not, Mr. Johnson; but do not forget this—that if it does not work up to \$200,000,000 we do not take in

\$200,000,000 in notes. If it only operates to the extent of \$100,000,000, we only take in \$100,000,000. We go as far over this road as the banks will go. My opinion is that they will go the full \$200,000,000.

Mr. JOHNSON. Then, do you think the profit in circulation will be sufficient?

Secretary GAGE. Yes, sir.

Mr. JOHNSON. Do you think the profit in circulation is increased in your bill over what it is in existing law?

Secretary GAGE. Very much. The profit is not very great under my bill, but it is next to nothing at present.

The CHAIRMAN. Will you be so kind, Mr. Secretary, if you can do so, as to have the Actuary of the Treasury figure out the profit under this bill on circulation, under different interest rates up to 10 per cent?

Secretary GAGE. I will be glad to have him make that calculation.

PROVIDING A USE FOR SILVER.

The CHAIRMAN. The ninth section of the bill is as follows:

SEC. 9. That the Comptroller of the Currency shall not issue to any national banking association, on and after the date when this act shall take effect, any of the circulating notes of such association of less denomination than ten dollars; and whenever any circulating notes of less denomination than ten dollars shall be redeemed or received into the Treasury of the United States, they shall be canceled and destroyed and other notes of lawful denominations shall be issued in their place.

Mr. COX. That is, working on the ones, and twos, and fives. That is the object of the section?

Secretary GAGE. Yes, sir.

Mr. COX. As these ones, twos, and fives come into the Treasury, and the intention is to never reissue them, what is the objection to paying those notes or issuing in their place the silver coin? Why not pay that? The object of that \$10 clause, or one of the main objects, is to make a place for the use of silver. That is admitted as a fact. Now, then, when the ones, twos, and fives come in, would it not be better to supply their place with silver instead of supplying their place with \$10 notes?

Secretary GAGE. I would agree with you except for two reasons. One is the perversity of human nature. We are spending \$70,000 a year now to induce people to take silver dollars. We are paying express charges in sending these silver dollars all over the United States. I quite agree with you, but you must have in mind the other person whom you desire should take these silver dollars. Then, there is another trouble. I believe we are going to be exposed to the counterfeiting of silver by illicit coinage. That will be a menace.

Mr. COX. Then, there are two points; that the people do not want the silver; and, secondly, that if you do have the silver it is subject to counterfeiting. You retire the ones, two, and fives. What is going to supply the place of exchange in everyday transactions where money is used, not checks, if you draw in the ones, twos, and fives, and supply their places with tens? What are you going to use?

Secretary GAGE. You do not supply their place with tens; we issue Government notes—

Mr. COX. Are these ones, twos, and fives in Treasury notes now to a certain extent?

Secretary GAGE. Yes, sir; they are to a certain extent. There are now \$75,000,000 in national-bank notes under \$10 in denomination.

Mr. COX. There is no necessity of substituting new ones in place of them. They answer every purpose that your new notes would answer.

Secretary GAGE. But I propose to monopolize for the Government the advantage of the circulating medium that comes in the way of notes under \$10.

Mr. McCLEARY. I suggest that you read the last line of this section.

Mr. COX. I am sure we have not our minds in the same channel. That section provides that when "circulating notes of less denomination than \$10 shall be redeemed or received in the Treasury of the United States they shall be cancelled and destroyed."

Mr. JOHNSON. What notes?

Secretary GAGE. National-bank notes.

Mr. JOHNSON. Now, if the Secretary will kindly explain what is meant by the words "circulating notes and other notes of lawful denomination" it will make it very plain.

Secretary GAGE. I mean legal-tender notes, Treasury notes, or Government certificates—

Mr. JOHNSON. That is it.

Secretary GAGE (continuing). That the Government issues.

Mr. NEWLANDS. Would it not be well to put in there "other United States notes of lawful denomination"?

Mr. COX. With that language I would understand it.

Secretary GAGE. We can easily reform the language. It is quite likely that your criticism is a good one.

Mr. COX (reading). "And whenever any circulating notes of less denomination than ten dollars shall be redeemed or received in the Treasury of the United States, they shall be canceled and destroyed, and other notes of lawful denomination shall be issued in their places."

Secretary GAGE. That relates purely to national-bank notes. When national-bank notes come in for redemption, we do redeem them, and if they make it good we give them back their notes. We send them new notes. But this clause provides that all notes under \$10 shall be destroyed, and larger ones than fives substituted in their place.

Mr. MITCHELL. In the eighth section I see that "the faith of the United States is hereby pledged to the redemption in lawful money," etc. Before that you cite a number of considerations for which the faith of the United States is pledged. Ought not that to include the payment of the tax of one-half of 1 per cent provided for in section 11, in the fourth line?

Secretary GAGE. We will take that under advisement and consider it, but let it pass now.

REDEMPTION AT SUBTREASURIES.

The CHAIRMAN. Section 10 of the bill is as follows:

SEC. 10. That on and after the date when this act shall take effect the circulating notes of the national banking associations shall be redeemed at the office of the United States assistant treasurer in the city of New York, and at such other sub-treasury offices as may be designated by the Comptroller of the Currency, with the approval of the Secretary of the Treasury; and the circulating notes of each national banking association so redeemed shall be charged to the ten per centum redemption fund of such association, under such regulations as may be prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Mr. COX. I want to say one word on this section. I read the words from the bill, "shall be redeemed at the office of the United States assistant treasurer in the city of New York, and at such other sub-treasury offices as may be designated by the Comptroller of the Currency, with the approval of the Secretary of the Treasury."

Under the questions propounded heretofore and the answers, we arrived at the conclusion that the holder of these notes could demand the gold for their redemption. Now, why not say that we should amend this so that they shall be redeemed in any lawful money of the United States, at the option of the Government?

Secretary GAGE. In answer to your proposition, I said "substantially." Technically, you are not right. They could not demand the gold of the Government. They could demand lawful money, and with the lawful money they could demand gold.

Mr. COX. Well, we passed over that, you know.

Secretary GAGE. I think the less discretionary power you give in the law to executive officers the better, because sometimes they may be indiscreet and do foolish things.

Mr. COX. Your answer, I understand, to my question, "Why not amend this section of the bill and put the discretion in the Government to use any of its lawful money in redeeming bank notes?"—I speak of nothing else—is that that discretionary power might be abused by the officer?

Secretary GAGE. He has that discretion now, Mr. COX. I said a moment ago that you could not oblige him to redeem in gold. He has the discretion to redeem in greenbacks, Treasury notes, or silver. He has that discretion now.

Mr. COX. Is it abused?

Secretary GAGE. No.

Mr. COX. Then the other answer, that it might be abused, is not the proper one?

Secretary GAGE. Perhaps not.

Mr. MITCHELL. Because it has not been abused in the past is no reason why it will not be abused in the future?

Secretary GAGE. It might not be, but I would not emphasize that last answer of mine as of much value.

The CHAIRMAN. The eleventh section of the bill is as follows:

SEC. 11. That in lieu of all existing taxes every national banking association issuing notes shall pay to the Treasurer of the United States, in the months of January and July of each year, a tax of one-fourth of one per centum for each half year upon the average amount of its notes in circulation: *Provided, however,* That during all the period of time intervening between the deposit of United States notes, Treasury notes, and silver certificates and the substitution of bonds by the Secretary of the Treasury, as in this act provided, the circulating notes specifically issued therefor and secured by said United States notes, Treasury notes, or silver certificates shall be exempt from taxation under the provisions of this act.

Secretary GAGE. That is simply the brief interim. Banks have no interest in that interim.

Mr. MITCHELL. Referring to the first line, I would make one suggestion with reference to the use of the word "existing." I would suggest to striking out the word "existing" and insert "in force previous to this bill becoming a law."

The CHAIRMAN. The Chair would suggest that such details can be gone over hereafter with the Secretary of the Department and arranged satisfactorily.

TAX ON CIRCULATION.

Mr. HILL. What is the purpose of a tax, Mr. Secretary?

Secretary GAGE. To get money.

Mr. HILL. To raise revenue for the Government?

Secretary GAGE. Yes, sir.

Mr. HILL. Not to pay the expenses of maintaining a system?

Secretary GAGE. Perhaps both.

Mr. HILL. Is it fair that the banks which do not take out circulation should have to pay their share of the expenses of taking out circulation?

Secretary GAGE. They do not have the benefit of it, and I do not see why they should pay.

Mr. HILL. They have the benefit of the national-bank law, do they not?

Secretary GAGE. Whether all national banks, in view of privileges they enjoy, should pay some tax is a debatable question. I am inclined to think they should, but that they should pay a tax on circulation when they do not avail themselves of the privilege of circulation I do not think is right.

Mr. HILL. I do not, either. The point is, it was unjust to the country banks and the banks in agricultural communities and smaller cities when the tax was taken off deposits and left on circulation, and in making a new revision of the banking system would it not be wise to provide that the cost of the maintenance of the system and the revenue to the Government should be equitably distributed on capital and surplus rather on circulation alone, when the country banks that I have spoken of do not avail themselves of this circulation privilege?

Secretary GAGE. I think they who use and enjoy the privilege should pay for it.

Mr. HILL. But under the present circumstances the large banks are paying nothing for the privileges they enjoy.

Secretary GAGE. Then fix a tax on them for the privilege they do enjoy.

Mr. HILL. That is what I think should be done.

Secretary GAGE. I think the banks would all be willing to pay a reasonable tax.

ORGANIZING BANKS IN SMALL TOWNS.

The CHAIRMAN. Section 12 of the bill is as follows:

SEC. 12. That section fifty-one hundred and thirty-eight of the Revised Statutes shall be amended to read as follows:

"No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants; and except that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed two thousand inhabitants. No association shall be organized in a city, the population of which exceeds fifty thousand persons, with a less capital than two hundred thousand dollars."

Mr. McCLEARY. Would the Secretary be willing to change that word "six," in line 7 of section 12, to the word "fifteen;" and the word "two," on the following page, to the word "five," so as to make it to apply to cities under 15,000 in one case and under 5,000 in the other case?

Secretary GAGE. I would like to take up the question that the gentleman suggests and discuss it with him, but I would not like to change it without some convincing argument on his part that it should be changed.

Mr. McCLEARY. I live in a city of 12,000 people. We have three banks, and the president of one of those banks asked me specifically, in case this question came up, to endeavor to secure the change that I have suggested. They find that they do not need so much circulation,

and they would like to organize with a capital of \$50,000 instead of \$100,000. Hence my question.

Secretary GAGE. I would like to talk that over with you, but I would not like to pass on it now.

AN "ENDLESS CHAIN" OF NATIONAL-BANK NOTES.

Mr. JOHNSON. One provision in this bill is not clear to me. An answer was made by the Secretary in regard to it that I did not exactly comprehend. It seems to me that, in endeavoring to avoid an endless chain on the Treasury in the form of United States notes, owing to the construction which the Secretary has placed upon his own bill it opens the Treasury to an endless chain in the shape of these national-bank notes. Now, the explanation that the Secretary gave did not seem to me to answer entirely that objection.

Secretary GAGE. I think we are liable to become confused on that point. I see very clearly that it looks like confusion, but I think if we keep in mind this one principle—that the Government of the United States is not going to redeem the debts of any merchant, national bank, corporation, or person, nor any debts except its own, and that the less the Government owes the less it will have to pay, we will not become very much confused. A merchant in paying his debts may give a person legal-tender notes in payment. It is a legitimate and proper thing for the debtor to do. That this may cause a drain on the Treasury is a situation that exists, and the only way to prevent it is to get the Government notes out of the way so it can not be done. If in redeeming national-bank notes the national banks have to provide the money to redeem the notes the Government does not have to provide it, and if it is the convenience of the national banks, and they have the facilities to provide the obligations of the Government wholly or in part, or gold wholly or in part, it is quite within their prerogative to do it—quite legitimate, proper, and right. And it does not interfere at all with the principle I have just laid down, that the less the Government owes the less it has to pay; and by so much as you reduce the liabilities, so much you reduce the ability of banks or private individuals to control those agencies that will draw gold from the Treasury.

Mr. JOHNSON. Yes; but the Secretary stated that if a bank should fail to redeem these national-bank notes, in case they were presented to the United States it would be the duty of the United States to redeem them. Does the Secretary think that the instance of a bank failing to redeem these notes when presented would be rare, and is that his reason for believing they could not be used to raid the Treasury?

Secretary GAGE. I think the reason the national-bank notes could not be used to raid the Treasury is that the national banks have to provide the money with which to redeem their notes.

Mr. JOHNSON. And they would do it under this bill?

Secretary GAGE. They would provide the money or they would be closed by the receiver and their assets sold and the money realized out of the sale or from their bonds; and if some of the fruits of their assets were Government notes, who ought to find fault? It is a part of the current money of the country that the Government itself has provided. Why disavow and put it off and try to dodge it?

The CHAIRMAN. Assuming that there will be a recurrence of the distress of 1893, is it possible in such a situation and under such conditions to avoid an endless chain, as long as we have any obligations we redeem in gold?

Secretary GAGE. No, sir. You may sometimes make a strong endless chain and sometimes a feeble one. As long as there is a dollar of obligation of the Government out that dollar can be presented to the Government. If it is redeemed and paid out it can be presented again and can be presented as many times as it is paid out. That can be done with only one dollar.

PROPOSED LAW WOULD GIVE HELP IN A CRISIS.

The CHAIRMAN. Assuming that there will be a recurrence of the conditions existing in 1893—that there will be such impairment of public confidence at home and abroad in our ability to redeem our pledges and to maintain the parity of our different kinds of moneys that there will be raised a doubt as to the kind of money we will redeem our obligations in—will this change in our system which you propose afford any material assistance in overcoming such a difficulty?

Secretary GAGE. I think it will be an immense help. I illustrated this yesterday. The result of my figures, without going over them again, shows that this act, if crystallized into law, will leave the Government exposed to \$370,000,000 of its liabilities, which practically, within a reasonable period of time, might come against it for gold redemption, counting every kind of money—silver, silver certificates, and all. I showed that \$125,000,000 in gold would rest as a reserve against that practical demand. I expressed the opinion that the ability of the Secretary of the Treasury, with the authorization of the President, to borrow \$100,000,000 in the market would make the Government so strong that it could not be broken in any kind of a crisis, and that is what we are bound to look out for as defenders of the Government credit. As it is now, we would be in the same position, except we have \$570,000,000 of practical liabilities that may come instead of \$370,000,000 of liabilities. Yes; we now have \$600,000,000. So our strength comes as strength comes from a liability diminished from \$600,000,000 to \$370,000,000. That is practically the way I look at it. It is a great question.

The CHAIRMAN. You would simply increase the difficulty of obtaining the gold.

Secretary GAGE. Excuse me, of obtaining the gold where?

The CHAIRMAN. At the Treasury.

Secretary GAGE. Yes, sir.

The CHAIRMAN. Remember that there are \$2,000,000,000 or \$3,000,000,000 of our obligations held abroad. Should there be a recurrence of the conditions and lack of faith and confidence existing three or four years ago, and should those securities be returned upon us, does the Secretary think that the additional strength given by his proposed measure to the situation would save us from falling to a silver basis?

Secretary GAGE. I think so.

Mr. McCLEARY. Am I to understand that you believe that the provisions of your bill would alleviate the pressure?

Secretary GAGE. Very much.

Mr. McCLEARY. And help to prevent the return of such conditions?

Secretary GAGE. Yes, sir.

POSSIBILITY OF GOING TO A SILVER BASIS.

Mr. FOWLER. I would like to ask a hypothetical question. Suppose that the next Congress elected should be a free-silver Congress, and pass a free-silver measure, and it went to the Senate, and passed that

body, do you not imagine that in two years, from 1898 to 1900, we would break down under the proposed bill and go to a silver basis?

Mr. HILL. I suggest that that is not a hypothetical case.

Mr. COX. It is almost an absolute certainty. [Laughter.]

Secretary GAGE. Do you want an answer?

Mr. FOWLER. Yes, sir. Whether or not, during the two years between 1898 and the time of the election in 1900, the Presidential election, which I assume would be in favor of sound money—during these two years pending, does the Secretary feel confident that the bill proposed would save the Government from going to a silver basis?

Secretary GAGE. I think, with the absolute assurance of the veto of the President of any free-silver measure and this arrangement, we would get through all right.

BANKING IN AGRICULTURAL COMMUNITIES.

Mr. HILL. I would like to get back to the discussion of the bill we have before us to-day. What is the purpose of section 12, providing for small banks?

Secretary GAGE. It gives the communities now destitute of the facilities of exchange and banking a chance to enjoy the benefits which arise from those agencies.

Mr. HILL. Is there any general character that can be assigned to such communities? To what kind of communities do you refer?

Secretary GAGE. I refer to communities that are so small as not to possess the capital necessary to organize a national bank with the present minimum requirements, \$50,000, and not attractive enough to bring in outsiders with the necessary capital.

Mr. HILL. You refer to business communities or agricultural communities?

Secretary GAGE. More particularly to agricultural communities. There is always a small business center somewhere in every sort of community.

Mr. HILL. Generally speaking, you now refer to agricultural communities, in which there would largely be agricultural loans?

Secretary GAGE. Very largely.

Mr. HILL. Do you believe it is possible for a national bank or any bank to be made a bank of issue with the facilities for prompt redemption which you have provided here, making agricultural loans against notes issued on demand?

Secretary GAGE. I think agricultural loans, properly made, are among the best loans in the world.

Mr. HILL. I know it, but can they be made as against demand issues of bank notes?

Secretary GAGE. They can, within reasonable range; yes, sir.

Mr. HILL. How is it possible for a bank, say, of \$25,000, situated in an agricultural community, to exchange its circulating notes for long-time agricultural notes and maintain redemption of its own notes?

Secretary GAGE. By "long-time agricultural notes" do you mean four or five year loans?

Mr. HILL. I mean six months, as against their own notes outstanding.

Secretary GAGE. I think they could.

Mr. HILL. In what way would they be able to do it.

Secretary GAGE. Because the community we are supposing is a community where the circulating capital is small, and as long as crops

were in process of being gathered and brought to market, and the expenses connected with them being paid off, there would be a local use for any circulating medium which this bank would supply, and it would stay there until crops (which ought to be more or less varied in every community, and are more or less varied) would begin to go forward to market; and that generally happens four or five months before the following crop is sown and the expense incidental to raising that crop inaugurated. When the crop goes to market the fund would be found to redeem the notes. The notes would find their way to the redemption centers if the community owed more than the crops paid. Then the notes, like any other form of money, would go forward to settle the difference, and they would be redeemed.

Mr. HILL. Take, for instance, the State of Arkansas, which has a loanable capital of \$4.86 per capita, and the State of Texas, which has a loanable capital of \$24.83 per capita, its principal crop being cotton. Cotton is marketed but once a year, of course, and it is a long time from the time of the planting, when the money would have to be borrowed, to the time of realization on the crops. If a bank can do that under the \$25,000 privilege, why hasn't it already been done under the \$50,000 privilege? Why is it that in these sections the loanable funds are so limited, whereas I find that in Rhode Island there is a loanable capital of \$371 per capita? In other words, will the privilege which is accorded here give additional banking facilities where the wealth does not already exist?

Secretary GAGE. It will give better facilities than now exist toward organizing banks; that is what we are talking about. It is now an impoverishment of a community to start a national bank. Take a little community that can scarcely raise \$50,000 capital. What does the Government require of it? It requires, in the first place, \$25,000 of that to be sent to Wall street to buy bonds, and then it may, and as it may it must, because it is too poor not to do it, put those bonds up with the Treasurer of the United States, and for the \$25,000 of bonds, which have cost over \$30,000, it may get \$22,500 of its own notes—not Government notes, but its own notes—which it may have the privilege of loaning to the community. That is an impoverishment to the community, substantially, of 30 per cent on capital it had before it started the bank. On the contrary, this measure proposes that the capital the community had shall be tied up in these bonds (say, at par) only to the amount of the 10 per cent reserve, but it does have the privilege, you know, of issuing 25 per cent of free circulation without the pledge of bonds. This is the chief value to these little communities.

Mr. JOHNSON. Because it makes it profitable to the banks to issue money?

Secretary GAGE. Yes; it makes it possible for them to lend something. If they have not money (and that is what is the matter with them now), the banks could loan their own to the limited extent provided.

Mr. HILL. But in an agricultural community, where the notes are of a single character—that is, agricultural notes—how is it possible for a bank of issue to maintain its redemption with its notes on demand?

Secretary GAGE. If it can not do it in any other way, it must get a temporary loan of an Eastern bank. That is what they have to do now.

Mr. HILL. Then, as a matter of fact, they would have no further facilities than now, except so far as they rely on their reserve institutions?

Secretary GAGE. They would have the use of the notes to the extent of their circulation.

Mr. HILL. Would those bank notes that they issue stay around there any more than if that \$25,000 bank was organized in the city of New York? It would not have a local habitation and a name, would it?

Secretary GAGE. Yes, it would; and the notes would stay there to some extent. They probably could not all go out by the first mail.

THE INTERESTS OF BANK DEPOSITORS.

Mr. SPALDING. In looking after the Government's protection against a raid on the Treasury, have we not lost sight of the depositors in these banks? I understand the deposits reach somewhere in the neighborhood of \$1,800,000,000. What method is there by which a depositor could be paid if the credit notes under this scheme of the bill are not legal tenders for debts and would not liquidate the indebtedness of the depositor? There would be no method, as I understand it, by which we could get legal tenders, because they would be in the Treasury.

Secretary GAGE. To some extent you would get them.

Mr. SPALDING. A depositor could claim legal-tender money for every deposit deposited in the bank?

Secretary GAGE. Yes, sir; he could.

Mr. SPALDING. Would not that limit the banks, in your judgment as a banker, and prevent them from paying their depositors in case of a raid on them, besides the credit notes that they were out?

Secretary GAGE. The banks got along very well when there was no such provision of legal-tender notes.

Mr. SPALDING. Wasn't there a great demand on the First National Bank of Chicago, at one time in 1893, for legal tenders?

Secretary GAGE. There was; and it reduced its liabilities 30 per cent, and still had its legal reserves on hand.

Mr. SPALDING. But they would not have the same reserves under this bill?

Secretary GAGE. I do not know why it would not.

Mr. SPALDING. In what?

Secretary GAGE. In legal money of some kind. It would have it in gold, if not in something else.

Mr. SPALDING. But do you not shorten that up in order to protect the Government from raids upon the Treasury, so you will push the raid upon the bank?

Secretary GAGE. I do not think so.

Mr. SPALDING. It makes less legal-tender money in existence in the United States, does it not?

Secretary GAGE. It does make less legal-tender money in the United States; but there is altogether too much now; that is, too much of circulating notes—too much of legal-tender notes for the Government's credit.

There being no further questions, the chairman (Mr. Brosius) expressed to the Secretary the thanks of the committee for his kindness and courtesy in appearing before it in explanation of the bill proposed by him, and in answering the questions of members concerning the same.

Thereupon, at 12.10 p. m., the committee rose.



STATEMENTS IN BEHALF OF THE MONETARY COMMISSION.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 12, 1898.

FIRST DAY.

The Committee met at 10.30 o'clock, a. m., in the room of the Committee on Interstate and Foreign Commerce, Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Brosius, Johnson, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, Ermentrout, and Maddox.

The CHAIRMAN. We propose to hear these gentlemen, who have come here at our invitation, in regard to the bill, H. R. 5855, to provide for strengthening the public credit, for the retirement of the demand obligations of the United States, and the amendment of the laws relating to national banking associations, which has been framed in accordance with the recommendations of the commission appointed by the Indianapolis monetary conference.

[H. R. 5855, Fifty-fifth Congress, second session.]

IN THE HOUSE OF REPRESENTATIVES, JANUARY 6, 1898.

Mr. Overstreet introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL to provide for the strengthening of the public credit, for the retirement of the demand obligations of the United States, and the amendment of the laws relating to national banking associations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the standard unit of value shall as now be the dollar, and shall consist of twenty-five and eight-tenths grains of gold, nine-tenths fine, or twenty-three and twenty-two one-hundredths grains of pure gold, as represented by the one-tenth part of the eagle.

SEC. 2. That all obligations for the payment of money shall be performed in conformity with the standard provided for in section one: *Provided,* That nothing herein contained shall be construed or held to affect the present legal-tender quality of the silver dollar or the subsidiary or minor coins, or the paper currency of the United States.

That all obligations of the United States for the payment of money now existing or hereafter to be entered into shall, unless hereafter otherwise expressly stipulated, be deemed and held to be payable in gold coin of the United States, as defined in the standard aforesaid.

SEC. 3. That there shall continue to be free coinage of gold into coins of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

No silver dollars shall be hereafter coined.

Silver coins of denominations less than one dollar shall be coined upon Government account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

Minor coins shall continue to be coined upon Government account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

Subsidiary and minor coins shall be issued and exchanged, as prescribed by existing laws, except as hereinafter otherwise provided.

SEC. 4. That there is hereby created a division in the Treasury Department, to be known as the division of issue and redemption, under the charge of an assistant treasurer of the United States, who shall be appointed by the President, by and with the advice and consent of the Senate.

SEC. 5. That to the division of issue and redemption shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes and certificates, and to the exchange of coins; and the said division of issue and redemption shall have the custody of the bank-note guaranty fund and of the redemption funds of the national banking associations, and shall conduct the operations of redeeming the circulating notes of national banking associations, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all silver dollars held against outstanding silver certificates, all United States notes held against outstanding currency certificates, and all silver dollars and silver bullion held against outstanding Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and such amount of subsidiary and minor coins as the Secretary of the Treasury shall consider necessary for the issue and exchange of such coins, and the funds deposited with the Treasury for the redemption or retirement of the circulating notes of national banking associations. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the other departments of the Treasury; and the accounts relating to the national banking associations deposited with the division of issue and redemption shall be kept separate and apart from all other accounts.

SEC. 6. That a reserve shall be established in the division of issue and redemption aforesaid by the transfer to it by the Treasurer of the United States from the general funds of the Treasury of an amount of gold, in coin and bullion, equal to twenty-five per centum of the amount, both of United States notes and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, outstanding, and a further sum in gold equal to five per centum of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used solely for the redemption of said notes and in exchange for said notes and for silver dollars and subsidiary and minor coins, as hereinafter provided.

SEC. 7. That it shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption aforesaid at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for, and the preservation of public confidence; and for this purpose he shall, from time to time, transfer to the division of issue and redemption any funds in the Treasury not otherwise appropriated; and in addition thereto he is hereby authorized to issue and sell, whenever it is, in his judgment, necessary to the ends aforesaid, bonds of the United States, bearing interest at a rate not exceeding three per centum per annum, payable in gold coin at the end of twenty years, but redeemable in gold coin at the option of the United States after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purposes aforesaid.

SEC. 8. That the division of issue and redemption shall, at Washington, and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate, on demand—

First. Pay out gold coin for gold certificates;

Second. Pay out United States notes for currency certificates;

Third. Pay out gold coin in redemption of United States notes and Treasury notes of eighteen hundred and ninety;

Fourth. Pay out silver dollars for silver certificates of any denomination;

Fifth. Issue silver certificates of denominations of one dollar, two dollars, and five dollars, in exchange for silver dollars and for silver certificates of denominations above five dollars;

Sixth. Pay out gold coin in exchange for silver dollars;

Seventh. Pay out silver dollars held in the division of issue and redemption aforesaid, and not covered by outstanding silver certificates, in exchange for gold coin, United States notes, or Treasury notes;

Eighth. Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin;

Ninth. Pay out gold coin in exchange for subsidiary and minor coins presented in sums of twenty dollars or multiples thereof, and pay out subsidiary and minor coins in sums of twenty dollars or multiples thereof, in exchange for any lawful money;

Tenth. Pay out in redemption of national-bank notes the moneys in the division available for that purpose.

SEC. 9. That the division of issue and redemption shall, on demand, pay in gold

coin all United States notes and Treasury notes presented for payment, and as paid cancel the same up to the amount of fifty million dollars. After that amount shall have been paid and canceled, it shall then from time to time cancel such further amounts of notes so paid as shall equal, but not exceed, the increase of national-bank notes issued subsequent to the taking effect of this Act.

SEC. 10. That if at the end of five years next after the taking effect of this Act any United States notes or Treasury notes shall be outstanding, a sum not exceeding one-fifth of such outstanding amount shall, as received, be retired and canceled each year thereafter; and at the end of ten years after the passage of this Act United States notes and Treasury notes then outstanding shall cease to be a legal tender for all debts, public and private, except for dues to the United States.

SEC. 11. That United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin, unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be canceled under the provision of this Act, in which case the Secretary of the Treasury shall have authority, if, in his judgment, that course is necessary for the public welfare, to invest the same, or any portion thereof, in bonds of the United States for the benefit of the gold reserve in the division of issue and redemption, such bonds to be held in the aforesaid division, subject to sale at the discretion of the Secretary of the Treasury, for the benefit of the said reserve in the said division of issue and redemption, and not for any other purpose.

SEC. 12. That the Secretary of the Treasury shall be authorized to sell for gold, from time to time, in his discretion, any silver bullion in the division of issue and redemption, and the proceeds of such sales shall be placed to the account of the gold reserve in the division of issue and redemption aforesaid. That so much of section two of the Act approved July fourteenth, eighteen hundred and ninety, entitled "An Act directing the purchase of silver bullion and the issue of Treasury notes thereon, and for other purposes," as provides that there shall be outstanding at any time no greater amount of the Treasury notes issued under the provisions of that Act than the cost of the silver bullion and the standard silver dollars coined therefrom, then held in the Treasury, purchased by such notes, be, and the same is hereby, repealed.

SEC. 13. That gold certificates and currency certificates shall, whenever presented and paid or received in the Treasury, be retired and canceled. All provisions of law authorizing the issue or reissue of gold certificates or currency certificates are hereby repealed.

SEC. 14. That no United States note or Treasury note issued under the Act of July fourteenth, eighteen hundred and ninety, of a denomination less than ten dollars shall hereafter be issued, and silver certificates shall hereafter be issued or paid out only in denominations of one dollar, two dollars, and five dollars against silver dollars deposited in the division of issue and redemption, or in exchange for silver certificates of denominations exceeding five dollars.

SEC. 15. That the Secretary of the Treasury may, in his discretion, transfer from any funds in the general Treasury not otherwise appropriated to the division of issue and redemption any United States notes or Treasury notes which, on such transfer, could then lawfully be canceled under the provision of this Act, if they had been redeemed on presentation; and when so transferred the same shall be canceled. And the Secretary of the Treasury, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be canceled under the provisions of this Act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be canceled.

SEC. 16. That to provide for any temporary deficiency which may at any time exist in the Treasury of the United States, the Secretary of the Treasury be, and he is hereby, authorized, at his discretion, to issue certificates of indebtedness of the United States, payable to the bearer in gold coin in five years, and redeemable in gold coin, at the option of the United States, after one year from their date, of the denomination of fifty dollars or multiples thereof, with interest at a rate not to exceed three per centum per annum, and to sell and dispose of the same for lawful money at the Treasury Department and at the subtreasuries and designated depositories of the United States, and at such post-offices as he may select. And such certificates shall have the like privileges and exemption provided in the Act entitled "An Act to authorize the refunding of the national debt," approved July fourteenth, eighteen hundred and seventy.

SEC. 17. That whenever money is to be borrowed on the credit of the United States, the Secretary of the Treasury is authorized, instead of issuing the usual forms of engraved bonds, upon receiving lawful money of the United States in sums of not less than fifty dollars in any single payment, to cause a record of such payments to be made in books to be kept for that purpose in Washington, and thereafter, from time to time, to pay to those so registered on such books interest at a rate not exceeding

three per centum per annum, in gold coin, on the amount with which they shall severally stand credited on such books, in the same manner as if they were holders and owners of registered bonds of the United States, and he shall also pay to those so registered the sum due in gold coin at the date of maturity of such inscribed loans. Suitable arrangements shall be made at each and every money-order post-office in the United States for receiving such payments into the Treasury on like terms, as well as for the transfer, on proper identification, of any inscription on the books in Washington, or of any part thereof not less than fifty dollars. No interest shall accrue or be paid on inscriptions which shall have been reduced below fifty dollars. No charge of any kind shall be made by any Department or officer of the Government for any service in connection with the receipt or transmission of the lawful money, nor in the transfer of inscriptions on the books at Washington.

SEC. 18. That any national banking association organized under the laws of the United States shall, if its capital be wholly paid up and unimpaired, be entitled to receive from the Comptroller of the Currency circulating notes of denominations hereinafter provided, in blank, registered and countersigned, as provided by law, to an amount not exceeding the amount of such paid-up and unimpaired capital, after deducting therefrom its investment in real estate: *Provided*, That during the five years first succeeding the passage of this Act, any national banking association receiving from the Comptroller of the Currency circulating notes in blank under the provisions of this Act shall maintain on deposit with the Treasurer of the United States bonds of the United States to an amount, at a valuation computed as herein-after prescribed, equal to that of the circulating notes so received whenever such notes shall not exceed twenty-five per centum of the capital stock. And for each succeeding year after the expiration of five years from the passage of this Act the amount of bonds required to be deposited before issuing notes in excess of such deposit shall be decreased by twenty per centum of the original twenty-five per centum of capital stock hereinbefore specified, and from and after the expiration of ten years from the passage of this Act no such bond deposit shall be required. And no further deposit of bonds shall be required than is herein prescribed; and any national banking association having at any time bonds of the United States deposited with the Treasurer in excess of the amount required by law to be at such time deposited may withdraw the whole or any part of such excess. But nothing herein contained shall be construed to authorize or permit the withdrawal of bonds required to be deposited under the provision of section fifty-one hundred and fifty-three of the Revised Statutes of the United States as security for the safe-keeping and prompt payment of public moneys deposited with any national banking association.

SEC. 19. That so much of the provisions of section fifty-one hundred and fifty-nine of the Revised Statutes of the United States and section four of the Act of June twentieth, eighteen hundred and ninety-four, and section eight of the Act of July twelfth, eighteen hundred and eighty-two, as provide that before any national banking association shall be authorized to commence banking business it shall transfer and deliver to the Treasurer of the United States United States registered bonds to an amount, where the capital is one hundred and fifty thousand dollars or less, not less than one-fourth of its capital stock, and fifty thousand dollars where the capital is in excess of one hundred and fifty thousand dollars, be, and the same is hereby, repealed.

SEC. 20. That every national banking association shall at all times keep and have on deposit with the division of issue and redemption, for the purpose hereinafter specified, a sum in gold coin equal to five per centum of its outstanding circulation. The amounts so kept on deposit shall constitute a fund to be known as "the bank-note guaranty fund," which fund shall be held for the following purpose, and for no other, namely:

Whenever the Comptroller of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven of the Revised Statutes of the United States, that any association has refused to pay its circulating notes on demand in lawful money, he shall direct the redemption of such notes from the bank-note guaranty fund aforesaid, and such notes shall thereupon be so redeemed. After the failure of any national banking association to redeem its notes shall have been thus ascertained, the bonds deposited with the Treasurer of the United States shall be sold as provided by law, and the proceeds of such sale shall be paid into the bank-note guaranty fund. The Comptroller of the Currency shall forthwith collect for the benefit of said fund, from the assets of the bank and from the stockholders thereof, according to their liability as declared by this Act, such sum as, with the bank's balance in the bank-note guaranty fund, shall equal the amount of its circulating notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a paramount lien upon all the assets of the association; and such fund shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

SEC. 21. That whenever the Comptroller of the Currency shall ascertain what deficiency, if any, exists between the aggregate collections for the benefit of the bank-note guaranty fund in the case of any failed bank and the amount of its outstanding notes redeemed and to be redeemed from the said fund, he shall assess such deficiency upon all the national banks in proportion to their notes outstanding at the time of the failure of such bank.

SEC. 22. That every bank going into liquidation, voluntary or involuntary, shall, prior to the payment of its creditors other than noteholders and the distribution of any of its assets to its shareholders, deposit with the assistant treasurer in charge of the division of issue and redemption lawful money to the full amount of its outstanding notes, and shall, in addition, pay to the aforesaid assistant treasurer such assessment for the benefit of the bank-note guaranty fund as the Comptroller shall judge to be requisite to meet such bank's liability for the reimbursement of the guaranty fund for any deficiency resulting from the payment therefrom of the notes of banks which shall have failed prior to the date when such bank shall go into liquidation.

SEC. 23. That the Secretary of the Treasury be, and is hereby, authorized, in his discretion, to cause to be invested in bonds of the United States any portion of the guaranty fund hereinbefore provided for; and such bonds shall be held and disposed of for the benefit of such fund.

SEC. 24. That all interest accruing from the investment of any portion of the aforesaid guaranty fund, and all funds received in payment of the duties on circulation provided for in this Act shall be held in the division of issue and redemption in gold coin or in United States bonds, in the discretion of the Secretary of the Treasury, and shall be a fund supplementary and in addition to the guaranty fund, to be used only in case said guaranty fund shall ever become insufficient to redeem any bank notes issued under the provisions of this Act, and it shall not be taken into account in estimating the amount of assessments necessary to replenish said guaranty fund or in repayment to banks of their contributions to the guaranty fund.

SEC. 25. That every national banking association shall pay, on or before the last day of every month, to the division of issue and redemption a duty imposed at the rate of two per centum per annum upon the average daily amount of its circulating notes outstanding in excess of sixty per centum of its capital stock, and not in excess of eighty per centum of such capital stock, and a duty imposed at the rate of six per centum per annum upon the average daily amount of such notes outstanding in excess of eighty per centum of its capital stock. Circulating notes of any national banking association shall be deemed and held to be outstanding whenever they shall have been supplied by the Comptroller of the Currency to such association in blank, registered and countersigned according to law, and shall have not been returned to the Comptroller for cancellation or covered by an equal amount of lawful money deposited with the assistant treasurer in charge of the division of issue and redemption for the retirement of such notes.

SEC. 26. That in order to enable the said assistant treasurer to assess the duties imposed by the preceding section, the Comptroller of the Currency shall, within five days from the first day of each calendar month, make a return to the said Assistant Treasurer of the United States, in such form as he may prescribe, of the average daily amount of circulating notes of each national banking association outstanding during the calendar month next preceding. And every national banking association shall be notified by said assistant treasurer of the United States, within ten days from the first day of each calendar month, of the amount of the duties upon its circulating notes due from it to the United States under this Act, and every such association shall, before the last day of such calendar month, pay to the division of issue and redemption in lawful money the full amount of such tax; and whenever any association fails to pay the duties imposed by this Act, the sums due may be collected in the manner provided for the collection of taxes, or said assistant treasurer may reserve the amount so due out of the interest as it may become due on any bonds deposited with him by such defaulting association; and while such default continues no further amount of circulating notes shall be issued to such defaulting association.

SEC. 27. That every national banking association shall pay into the division of issue and redemption each half year, in the months of January and July, on or before the thirtieth day thereof, a duty of one-eighth of one per centum upon the value of its franchise as measured by the aggregate amount of its capital, surplus, and undivided profits, upon the last day of the calendar month next preceding. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this Act.

SEC. 28. That the valuation of the bonds required by this Act to be deposited by national banking associations with the Treasurer of the United States shall be annually fixed, upon a basis of three per centum interest, by the Secretary of the

Treasury, for each series of the bonds of the United States then outstanding and bearing a rate of interest exceeding three per centum. And such bonds shall be received upon deposit by the Treasurer of the United States at the valuation thus fixed by the Secretary of the Treasury. Bonds of the United States payable at the option of the Government shall be received upon deposit, under the provision of this Act, at ninety-five per centum of their market value. Bonds of the United States payable at the date named and bearing interest at a rate not exceeding three per centum per annum shall be received on deposit at their par.

SEC. 29. That the circulating notes furnished to national banking associations under the provisions of this Act shall be of the denominations prescribed by existing law, except that no national banking association shall, after the passage of this Act, be entitled to receive or to issue or reissue or place in circulation any circulating notes of a less denomination than ten dollars. So much of section fifty-one hundred and seventy-two of the Revised Statutes as reads, "express upon their face that they are secured by United States bonds deposited with the Treasurer of the United States, by the written or engraved signatures of the Treasurer and Register, and by the imprint of the seal of the Treasurer; and shall also," is hereby repealed.

SEC. 30. That no national banking association shall count or report any of its own notes as a part of its cash or cash assets.

SEC. 31. That section nine of the Act of July twelfth, eighteen hundred and eighty-two, entitled "An Act to enable national banking associations to extend their corporate existence, and for other purposes," be, and the same is hereby, repealed.

SEC. 32. That from and after the passage of this Act the stockholders of every national banking association shall be held individually responsible for all contracts, debts, and engagements of such association, each to the amount of his stock therein, at the par value thereof, in addition to the amount invested in such stock. The stockholders in any national banking association who shall have transferred their shares, or registered the transfer thereof, within sixty days next before the date of the failure of such association to meet its obligations, shall be liable to the same extent as if they had made no such transfer; but this provision shall not be construed to affect in any way any recourse which such shareholders might otherwise have against those in whose names such shares are registered at the time of such failure.

SEC. 33. That the fund of five per centum of outstanding circulating notes required to be kept on deposit by every national banking association for the redemption of the circulating notes of such association shall be in gold coin of the United States; and the Comptroller of the Currency shall, with the approval of the Secretary of the Treasury, have authority to provide for the redemption of national bank notes at any or all of the subtreasuries of the United States.

SEC. 34. That so much of section three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as reads, "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States notes," be amended to read: "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, at the Treasury, or at such subtreasuries as may be designated by the Comptroller of the Currency, the same shall be redeemed in lawful money. But nothing in this Act contained shall be construed to impose upon the United States any liability for the redemption of the notes of any national banking association beyond the proper application of the redemption and guaranty funds deposited with the division of issue and redemption, and the enforcement of the remedies by this Act provided."

SEC. 35. That at least one-fourth of the reserve of twenty-five per centum of the aggregate amount of its deposits required under the provisions of existing law to be held by every national banking association in either of the cities designated as reserve or central reserve cities, and at least one-fourth of the reserve of fifteen per centum of the aggregate amount of its deposits required to be held by every other association, shall consist of coin of the United States actually held in the vaults of such bank: *Provided*, That nothing in this section, except as expressly provided, shall be construed to alter or in any way affect the provisions of existing law governing the maintenance of reserves.

SEC. 36. That so much of section three of the Act of June twentieth, eighteen hundred and seventy-four, entitled "An Act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as provides that the fund deposited by any national banking association with the Treasurer of the United States for the redemption of its notes shall be counted as a part of its lawful reserve, as provided in section two of the Act aforesaid, be, and the same is hereby, repealed. And from and after the passage of this Act neither such

fund of five per centum nor any contribution to the bank-note guaranty fund, provided for in section twenty of this Act, shall be counted by any national banking association as a part of its lawful reserve.

SEC. 37. That section fifty-one hundred and thirty-eight of the Revised Statutes of the United States be amended to read as follows: "No association shall be organized under this title in a city the population of which exceeds fifty thousand inhabitants with a less capital than two hundred thousand dollars. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed four thousand inhabitants."

SEC. 38. That it shall be lawful for any national banking association to establish branches under such rules and regulations as may be prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

SEC. 39. That so much of section fifty-one hundred and eighty-two of the Revised Statutes of the United States as provides that the circulating notes of national banking associations shall be received at par for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency, be, and the same is hereby, repealed.

SEC. 40. That section three hundred and twenty-four of the Revised Statutes of the United States be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this Act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by national banking associations, the chief officer of which bureau shall be called the Comptroller of the Currency, and shall perform his duties under the general direction of the Secretary of the Treasury."

SEC. 41. That the examination of the affairs of every national banking association authorized by existing laws shall take place at least twice in each calendar year, and as much oftener as the Comptroller of the Currency shall consider necessary in order to furnish a full and complete knowledge of its condition; and the person making such examination shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this Act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Secretary of the Treasury. But the expense of the examinations herein provided for shall be assessed by the Comptroller of the Currency upon the associations examined. The Comptroller of the Currency shall so arrange the duties of national bank examiners that no two successive examinations of any association shall be made by the same examiner.

SEC. 42. That no association shall hereafter make any loan or grant any gratuity to any examiner of such association. Any association offending against this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to the money so loaned or gratuity so given; and the officer or officers of such association making such loan or granting such gratuity shall be likewise deemed guilty of a misdemeanor, and shall be fined not to exceed five hundred dollars. And any examiner accepting a loan or gratuity from any association examined by him shall be deemed guilty of a misdemeanor, and shall be fined not more than five hundred dollars, and a further sum equal to the money so loaned or gratuity given.

SEC. 43. That the Comptroller of the Currency, in addition to the reports provided for by existing laws, shall have authority to call for such other reports, regular or special, as he may deem advisable; and such reports shall be rendered in such form as the Comptroller may prescribe; and each association making such report shall cause a copy thereof to be conspicuously displayed in a public place in its banking house for the period of thirty days from the date of such report; but nothing herein contained shall be construed to require the publication of such additional reports by each association in the manner prescribed for other reports now rendered.

SEC. 44. That any national banking association heretofore organized may, at any time within one year from the passage of the proposed Act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than two-thirds of the capital stock of the association. Any national banking association now organized which shall not within one year after the passage of the proposed Act become a national banking association under the provisions hereinbefore stated, and which

shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guarantee of its circulating notes, or which shall fail to comply with any other provision of the proposed act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders, or officers for any liability or penalty which shall have been previously incurred.

SEC. 45. That any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the proposed Act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the Comptroller of the Currency has given to such bank or banking association a certificate that the provisions of this Act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects as shall have been prescribed for associations originally organized as national banking associations under the proposed Act.

SEC. 46. That nothing contained in this Act shall be construed to alter or affect any vested rights of property or contract, or any penalties incurred before the taking effect of this Act or any part of it; and all provisions of law inconsistent with or superseded by any of the provisions of this Act be, and the same are hereby, repealed.

[Extract from the report of the Indianapolis Monetary Commission.]

PLAN OF CURRENCY REFORM.

I.—METALLIC CURRENCY AND DEMAND OBLIGATIONS.

1. The existing gold standard shall be maintained; and to this end the standard unit of value shall continue, as now, to consist of 25.8 grains of gold, nine-tenths fine, or 23.22 grains of pure gold, as now represented by the one-tenth part of the eagle. All obligations for the payment of money shall be performed in conformity to the standard aforesaid; but this provision shall not be deemed to affect the present legal-tender quality of the silver coinage of the United States or of their paper currency having the quality of legal tender. All obligations of the United States for the payment of money now existing, or hereafter entered into, shall, unless otherwise expressly provided, be deemed, and held, to be payable in gold coin of the United States, as defined in the standard aforesaid.

2. There shall continue to be free coinage of gold into coins of the denominations, weight, fineness, and legal-tender quality, prescribed by existing laws.

3. No silver dollars shall be hereafter coined.

4. Silver coins of denominations less than \$1 shall be coined upon Government account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

5. Minor coins shall continue to be coined upon Government account, of the denominations, weight, fineness, and legal-tender quality prescribed by existing laws.

6. Subsidiary and minor coins shall be issued and exchanged as prescribed by existing laws, except as hereinafter otherwise provided.

7. There shall be created a separate division in the Treasury Department, to be known as the division of issue and redemption, under the charge of an assistant treasurer of the United States, who shall be

appointed by the President by and with the advice and consent of the Senate.

8. To this division shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes or certificates, and to the exchange of coins; and this division shall have the custody of the guaranty and redemption funds of the national banks, and shall conduct all the operations of redeeming national-bank notes, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all United States notes held against outstanding currency certificates, all silver dollars held against outstanding silver certificates, and all silver dollars and silver bullion held against outstanding Treasury notes of 1890, and all subsidiary and minor coins needed for the issue and exchange of such coins, and the funds deposited with the Treasury for the liquidation of national-bank notes. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the fiscal departments of the Treasury; and the accounts relating to the national banks shall be kept separate and apart from all other accounts.

9. A reserve shall be established in this division by the transfer to it by the Treasurer of the United States from the general funds of the Treasury of an amount of gold in coin and bullion equal to 25 per cent of the aggregate amount of both the United States notes and Treasury notes issued under the act of July 14, 1890, outstanding, and a further sum in gold equal to 5 per cent of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used solely for the redemption of such notes and in exchange for such notes, and for silver and subsidiary and minor coins.

10. It shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption at such sum as shall secure the certain and immediate redemption of all notes and silver dollars presented, and the preservation of public confidence; and for this purpose he shall, from time to time, as needed, transfer from the general fund of the Treasury to the division of issue and redemption any surplus revenue not otherwise appropriated; and in addition thereto he shall be authorized to issue and sell, whenever it is in his judgment necessary for that purpose, bonds of the United States bearing interest not exceeding 3 per cent, running twenty years, but redeemable in gold coin, at the option of the United States, after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purposes aforesaid.

11. To provide for any temporary deficiency which may at any time exist in the fiscal department of the Treasury of the United States, the Secretary of the Treasury shall be authorized, at his discretion, to issue certificates of indebtedness of the United States, payable in from one to five years after their date, to the bearer, of the denominations of \$50 or multiples thereof, with interest at a rate not to exceed three per centum per annum, and to sell and dispose of the same for lawful money at the Treasury Department, and at the subtreasuries and designated depositories of the United States, and at such post-offices as he may select. And such certificates shall have the like privileges and exemptions provided in the act to authorize the refunding of the national debt, approved July 14, 1870.

12. Whenever money is to be borrowed on the credit of the United States, the Secretary of the Treasury shall be authorized, instead of issuing the usual forms of engraved bonds, upon receiving lawful money of the United States in sums of not less than fifty dollars (\$50) in any

single payment, to cause a record of all such payments to be made in books to be kept for that purpose in Washington, and thereafter, from time to time, to pay to those so registered on such books interest not exceeding 3 per cent per annum in gold coin on the amount with which they shall severally stand credited on such books in the same manner and at the same dates as if they were the holders and owners of registered bonds of the United States; and he shall also pay to those so registered the principal sum originally deposited in gold coin, at the date of maturity of such inscribed loans. Suitable arrangements shall be made at each and every money-order post-office in the United States for receiving such payments into the Treasury on like terms, as well for the transfer, on proper identification, of any inscription on the books in Washington, or of any part thereof not less than fifty dollars (\$50). No interest shall accrue or be paid on inscriptions which shall have been reduced below fifty dollars (\$50). No charge of any kind shall be made by any Department or officer of the Government for any service in connection with the receipt or transmission of the lawful money, nor in the transfer of inscriptions on the books at Washington.

13. The division of issue and redemption shall on demand at Washington, and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate—

- (a) Pay out gold coin for gold certificates.
- (b) Pay out gold coin in redemption of United States notes or Treasury notes of 1890.
- (c) Pay out silver dollars for silver certificates of any denomination.
- (d) Issue silver certificates of denominations of \$1, \$2, and \$5, in exchange for silver dollars and for silver certificates in denominations above \$5.
- (e) Pay out gold coin in exchange for silver dollars.
- (f) Pay out silver dollars in exchange for gold coin, United States notes or Treasury notes.
- (g) Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin.
- (h) Pay out and redeem subsidiary and minor coins as provided by existing laws.
- (i) Pay out United States notes in exchange for currency certificates.

14. United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be cancelled under the provisions of the act, in which case the Secretary of the Treasury shall have authority, if in his judgment that course is necessary for the public welfare, to invest the same, or any portion thereof, in bonds of the United States for the benefit of the redemption fund, such bonds to be held in the division of issue and redemption, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the division of issue and redemption, and not for any other purpose.

15. The Secretary of the Treasury shall be authorized to sell from time to time, in his discretion, any silver bullion in the division of issue and redemption, and the proceeds in gold of such sales shall be placed to the account of the gold reserve in the division of issue and redemption.

16. The gold certificates and the currency certificates shall, whenever presented and paid or received in the Treasury, be retired and not reissued.

17. No United States note or Treasury note of 1890 of a denomination less than \$10 shall hereafter be issued; and silver certificates shall hereafter be issued or paid out only in denominations of \$1, \$2, and \$5 against silver dollars held by or deposited in the Treasury.

18. The Assistant Treasurer in charge of the division of issue and redemption shall, on demand, pay in gold coin all United States notes and Treasury notes presented for payment, and as paid cancel the same up to the amount of \$50,000,000. After that amount shall have been paid and cancelled, he shall then from time to time cancel such further amounts of notes so paid as shall equal, but not exceed, the increase of national bank notes issued subsequent to the taking effect of the proposed act.

19. If at the end of five years next after the taking effect of the proposed act any United States notes or Treasury notes shall be outstanding, a sum not exceeding one-fifth of such outstanding amount shall be retired and cancelled each year thereafter; and at the end of ten years after the passage of the proposed act the United States notes and Treasury notes then outstanding shall cease to be legal tender for all debts public and private, except for dues to the United States.

20. The Secretary of the Treasury may, in his discretion, transfer from surplus revenue in the general Treasury to the division of issue and redemption any United States notes or Treasury notes which on such transfer could then lawfully be cancelled under the provisions of the proposed act if they had been redeemed on presentation; and when so transferred the same shall be cancelled. The Secretary of the Treasury, in his discretion, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be cancelled under the provisions of the act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be cancelled.

21. All vested rights of property or contract, and all penalties incurred before the taking effect of the proposed act or any part of it, shall not be affected by the passage thereof; and all provisions of law inconsistent with any of the provisions of the proposed act should be repealed.

II.—BANKING SYSTEM.

22. The total issues of any national bank shall not exceed the amount of its paid-up and unimpaired capital, exclusive of so much thereof as is invested in real estate. All such notes shall be of uniform design and quality, and shall be made a first lien upon all the assets of the issuing bank, including the personal liability of its stockholders. No such notes shall be of less denomination than \$10.

23. Up to an amount equal to 25 per cent of the capital stock of the bank (the whole of its capital being unimpaired), the notes issued by it shall not exceed the value of United States bonds, to be fixed as hereinafter provided, deposited with the Treasurer of the United States. The additional notes authorized may be issued without further deposit of bonds.

Beginning five years after the passage of the proposed act, the amount of bonds required to be deposited before issuing notes in excess thereof shall be reduced each year by one-fifth of the 25 per cent of capital herein provided for; and thereafter any bank may at any time withdraw any bonds deposited in excess of the requirements hereof.

24. Every national bank shall pay a tax at the rate of 2 per cent per annum, payable monthly, upon the amount of its notes outstanding in excess of 60 per cent and not in excess of 80 per cent of its capital, and a tax at the rate of 6 per cent per annum, payable monthly, upon the amount of its notes outstanding in excess of 80 per cent of its capital.

25. Any bank may deposit any lawful money with the Treasurer of the United States for the retirement of any of its notes; and every such deposit shall be treated as a reduction of its outstanding notes to that extent; and the tax above provided for shall cease as of the first of the following month on an equal amount of its notes.

26. The Secretary of the Treasury shall annually fix the value of each series of bonds of the United States bearing a rate of interest exceeding 3 per cent, as equalized upon the rate of interest of 3 per cent per annum, and such valuation as fixed by the Secretary on this basis shall be the valuation at which the bonds will be receivable upon deposit. Bonds payable at the option of the Government shall be receivable at 95 per cent of their then market value as determined by the Secretary of the Treasury. If any bonds shall be issued hereafter, payable at a date named and bearing interest at 3 per cent or less, they shall be receivable at par.

27. The Comptroller of the Currency shall from time to time, as called for, issue to any bank the capital of which is full-paid and unimpaired, any of the notes herein elsewhere provided for on the payment to the Treasurer of the United States, in gold coin, of 5 per cent of the amount of notes thus called for, which payments shall go into the common guaranty fund for the prompt payment of the notes of any defaulted national bank. Upon the failure of any bank to redeem its notes they shall be paid from the said guaranty fund, and forthwith proceedings shall be taken to collect from the assets of the bank and from the stockholders thereof, if necessary, a sum sufficient to repay to said guaranty fund the amount thereof that shall have been used to redeem said notes, and also such further sum as shall be adequate to the redemption of all the unpaid notes of said bank outstanding.

28. Persons who, having been stockholders of the bank, have transferred their shares, or any of them, to others, or registered the transfer thereof within sixty days before the commencement of the suspension of payment by the bank, shall be liable to all calls on the shares held or subscribed for by them, as if they held such shares at the time of suspension of payment, saving their recourse against those by whom such shares were then actually held. So long as any obligation of the bank shall remain unsatisfied, the liability of each stockholder shall extend to, but not exceed in the whole, an amount equal to the par of his stock.

29. If the said guaranty fund of 5 per cent of all the notes outstanding shall become impaired, by reason of payments made to redeem said notes as herein provided, the Comptroller of the Currency shall make an assessment upon all the banks in proportion to their notes then outstanding sufficient to make said fund equal to 5 per cent of said outstanding notes.

Any bank may deposit any lawful money with the Treasurer of the United States for the retirement of any of its notes; or return its own notes for cancellation; whereupon the Comptroller shall direct the repayment to such bank of whatever sum may be the unimpaired portion of said bank's contribution to the guaranty fund on account of said notes.

Any portion of the guaranty fund may be invested in United States bonds in the discretion of the Secretary of the Treasury.

The taxes on circulation, provided for in paragraph 24, as well as the interest accruing from investment of any part of the guaranty fund, shall be held in the Division of Issue and Redemption in gold coin or in United States bonds, in the discretion of the Secretary of the Treasury, and shall be a fund supplementary and in addition to the guaranty fund, to be used only in case said guaranty fund shall ever become insufficient to redeem any bank notes issued hereunder, and it shall not be taken into account in estimating the amount of assessments necessary to replenish said guaranty fund or in repayments to banks of their contributions to the guaranty fund.

30. The present system of national bank-note redemption should be continued, with a constantly maintained redemption fund of 5 per cent in gold coin, and with power conferred on the Comptroller of the Currency, with the approval of the Secretary of the Treasury, to establish additional redemption agencies at any or all of the subtreasuries of the United States, as he may determine.

31. So much of the provisions of existing law as require each national bank to receive at par, in payment of debts to it, the notes of other national banks, and making such notes receivable at par in payment of all dues to the United States except duties on imports, shall be extended to cover notes issued under the proposed plan.

32. National banks shall hold reserves in lawful money against their deposits of not less than 25 per cent and 15 per cent for the respective classes as now provided by law, at least one-fourth of which reserve shall be in coin, and held in the vaults of the bank. Neither the 5 per cent redemption fund nor the 5 per cent guaranty fund shall be counted as part of the reserve required. No bank shall count or report any of its own notes as a part of its cash or cash assets on hand.

33. Permit the organization of national banks with a capital stock of \$25,000 in places of four thousand population or less.

34. Provision should be made whereby branch banks may be established with the consent of the Comptroller of the Currency and approval of the Secretary of the Treasury.

35. For the purpose of meeting the expenses of the Treasury in connection with the national-bank system, a tax of one-eighth of 1 per cent per annum upon its franchise, as measured by the amount of its capital, surplus, and undivided profits, shall be imposed upon each bank.

36. So amend existing laws as to provide—

- (a) For more frequent and thorough examinations of banks.
- (b) For fixed salaries for bank examiners.
- (c) To provide for rotation of examiners.
- (d) For public reports, regular or special, at the call of the Comptroller of the Currency.
- (e) To make it penal for any bank to loan money, or grant any gratuity, to an examiner of that bank, and penal for such examiner to receive it.

37. Any national banking association heretofore organized may at any time within one year from the passage of the proposed act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: Provided, that such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than two-thirds of the capital stock of the association.

38. Any national banking association now organized which shall not, within one year after the passage of the proposed act, become a national

banking association under the provisions hereinbefore stated, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guarantee of its circulating notes, or which shall fail to comply with any other provision of the proposed act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

39. Any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of the proposed act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of the law. When the Comptroller of the Currency has given to such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations, in all respects, as shall have been prescribed for associations originally organized as national banking associations under the proposed act.

This plan is based in its main features upon principles which are conceived to be fundamental and unchangeable, and which never have been and never can be departed from without disaster. Its methods and details are of course capable of considerable variation consistently with these principles. The methods suggested have been reached after very careful inquiry and study, and it is thought that they will prove to be practical and adequate to the realization of a safe and steady system of finance and currency, in which all the people of our country, of whatever calling or political opinion, are equally and most deeply interested.

All of which is respectfully submitted.

GEORGE F. EDMUNDS,
Chairman.

GEORGE E. LEIGHTON,
Vice-Chairman.

T. G. BUSH.

W. B. DEAN.

CHARLES S. FAIRCHILD.

STUYVESANT FISH.

J. W. FRIES.

C. STUART PATTERSON.

ROBERT S. TAYLOR.

WASHINGTON, *December 17, 1897.*

I sign except as to provisions relating to metallic currency and certificates issued thereon.

LOUIS A. GARNETT.

The undersigned, while heartily agreeing in general to the above plan, dissents from the principle involved in section 14, by which the Secretary of the Treasury is empowered to reissue United States notes in purchase of bonds, believing that the increase of the circulation should not be left to the decision of Government officials; that no official should be exposed to the pressure which would thereby be created; that the issue of gold in redemption of the notes would prevent contraction, and that it is inconsistent with the principles on which an elastic bank currency has been recommended, because notes should not be issued by the Government in an emergency when bank issues have been above provided for exactly such an occasion.

J. LAURENCE LAUGHLIN.

**STATEMENT OF HON. GEORGE F. EDMUNDS, CHAIRMAN OF THE
MONETARY COMMISSION, AND FORMERLY UNITED STATES SEN-
ATOR FROM VERMONT.**

Mr. Chairman and gentlemen of the committee, we have come here this morning at your kind invitation to explain in such a way as you may think desirable the work which we have undertaken to perform, at the request of the Indianapolis convention. The report which we have made, and which is in print, goes briefly, although fully in respect to the position of the subject and into the ground work upon which the bill which the commission framed, rests. So I do not know how far the committee would wish to occupy time in my going over the subject.

Except we come down to specific matters of method and detail, which I should not wish to go into without further comparison with other bills besides the one we framed, I can not say much that does not appear in our printed report, which we have endeavored to make so brief that it can be read even by gentlemen who are pressed by a great many things.

STANDARD OF VALUE THE FUNDAMENTAL PROPOSITION.

You will see that the fundamental proposition upon which we start, and which we believe to be the foundation of any procedure that is to be had, is first to know what the standard of value in this country is and is to be. There are, of course, three or four different views about that among different people. Some people believe, and I am one of them, that it is impossible to have more than one standard of value at the same time for anything whatever in this world, as, we are taught also, it is in the next. If you are to have one standard, which would apparently go without saying, then the question would be, What is the best standard?

The best standard, according to the experience of nations, as well as according to the philosophy of common sense, is that which is least likely to change, and one in conformity with which all contracts between men can be adjusted, and which, when the contract comes to be performed at a distance in time after the time when it was made, will mean the same thing then that it did when made. If two men agree to exchange farms, for instance, each one knows exactly what he is going to get. If a man engages to deliver a thousand bales of

cotton next May, of a described grade, the purchaser would know then exactly what he is going to have, and the seller would know exactly what he has to deliver. Now, the commission have thought that that principle—which is obvious common sense, and which it would be a waste of time to express if there were not a difference of opinion about it in this country—relates to the standard of value, just as certainly, both in philosophy and in human experience, as it does to a specific article about which a contract is made; and we are perfectly confident in the belief that there never has been in this world anywhere a double standard of value of money.

THE DOUBLE STANDARD OF VALUE.

There have been double standards enacted by law, but when it comes to the fact of actual practice among men there never has been but one standard, and there never can be but one. Our own experience in this country—although we attempted to create a double standard by legislation at one time, but it was corrected so soon nobody was harmed by it—demonstrates that proposition. We had by law a double standard, as it was called, the silver dollar and the gold dollar, or \$10 or \$5, which amounts to the same thing. That standard was established upon the theory that I have named, that you can have two metals, and so long as they bear precisely the same relation to each other then you have what you call a double standard, but as a matter of fact there is only one standard, because if they were perfectly equal there would be only one.

And so our fathers, as you know—and I am ashamed to take up your time in talking about this, but it seems to be necessary at the start—our fathers took the utmost pains to take exactly the number of grains of gold, and exactly the number of grains of silver that were worth precisely the same in the world at that time. They did it for that reason; because they knew you could not have two standards of separate intrinsic value. That, then, was established. The amount of silver in the silver dollar was worth exactly what the amount of gold in the gold dollar was worth. Things went on for several years and the market value of the two metals kept in that proportion, but by and by there came a difference in the market value of those two metals of 1 or 2 or 3 per cent. My recollection is that silver first was worth a little more than gold upon the ratio which had been established. But no matter which way it was, our fathers saw it would not do to have it go on that way, because they knew they could not have two standards of separate intrinsic value, and they proceeded to change that again so as to correspond or agree with the commercial value of the two metals.

It went on for several years in that way, and after a time there was another variation, as there is in every sort of commodity—and there is nothing sacred or peculiar about those two metals any more than there is about iron or copper or wheat—and then our fathers in time changed back again so as to make the intrinsic value the same, as the relation of 25 to 412 or whatever it is. They made that change because they saw that even that slight variation made one of those metals cease to be used by the people. They kept the money that was most valuable and put out that which was the least valuable, and the money that was most valuable gradually disappeared from circulation.

So, I say, we have had in this country two instances of the impossibility of having two separate standards of value, unless those two

things which are made the standards of value are kept upon precisely the same commercial value and equality so far as regards the stuff that is in them.

THE EXPERIENCE OF THE NATIONS.

Such also, we think, is the experience of every civilized nation. It has been tried in England. In the old times, which are historic, when the English sovereign got short of money he thought it would be a convenient thing and a good thing for him to put his stamp on some money and make it legal tender, putting less silver in it than had been put in it theretofore, coining the crown and other pieces of money with more alloy—debased, as you would call it. He thought that would be a good idea, and he did that. That raised prices for everything except the price of labor. Labor continued to get the same price as before, but when the laborer went to buy bread he found that the bread seller would not take his money except at its real intrinsic value, and then penalties were imposed by the Government, and the thing went on—to make a short story of it—until riots and disturbances became frequent. That is always the way it works. A debased currency always works the greatest hardships upon the laboring and poorer classes. Finally they had to give up that practice.

Spain tried it, I think at a later period, when she was a strong nation—stronger than now—and when her flag was everywhere. She thought she could increase her wealth and currency by debasing the coin, putting in more alloy, calling in those coins that were out and recoining them. The people would not take that money except at its real value. Additional severe penalties were imposed, and further disturbances took place until, according to Spanish fashions of that day—I say nothing about Spain's present fashions—extreme measures of cruelty and personal punishment and imprisonment, and I do not know but death, at last—I think so, but I will not be sure about that—all these penalties were imposed upon the people and still they refused to take that kind of money at its nominal value and continued to take it at its real value. Of course that effort on the part of Spain collapsed.

Later on France tried a similar course—not on coinage, but on paper, which really amounts to the same thing. You all know of the famous instance of the assignats, secured on the principle of a state bank like Russia—that is, on the real property of the country. France had a great deal of real property then belonging to the Government, and out went the paper money. That very soon came to be discredited and fell off in its value as compared to the other money of the country, and then there was a scarcity, because it took a great deal more money to pay the same thing, and money was scarcer than it was before all the good money disappeared from circulation. Then more was put out—just as some people in our country not long since thought it was necessary to put out more and more of the Government notes in order to ease the people, instead of calling them in. As a matter of course, that system collapsed, after great harm of the great body of the people of France.

GOLD PREFERRED FOR THE STANDARD OF VALUE.

That, we think, is human experience. We have this continuous experience. We think there is no instance in the history of the world where any other result has obtained. We therefore thought it indispensable to the welfare of this country that we should have the same standard. We thought that gold was preferable to silver for the reason that the

standard should be the one least liable to change; and the production of gold is more steady and equal, year by year and century by century, and much less in quantity than silver, so that the value of gold in the markets of the world as bullion has never varied to anything like the extent that silver has varied. Silver would be preferred to copper if there were no gold in existence, for the same reason that copper can be produced so much more abundantly, and the market could be overstocked with copper. So the intrinsic values of the metals throughout the world has changed up and down according to the production of different years, the production of gold and silver, for instance, being more this year than next year, and so on.

We thought it clear, not because silver is not as durable as gold and almost as free from corrosion, and that sort of thing, but because we thought the fundamental principle is that the standard should be the most perfectly fixed and steady thing of value that could be found, and because of human experience that no law can force a double standard in fact; and in all the experience and philosophy of men a single standard for everything is all that the people who do business in the world have ever had. That brought us to the gold standard.

To my mind, and, I think, to the minds of the commission, that did not by any means imply a rejection of bimetallism, or a rejection of the use of copper or nickel or silver as money, or any other thing that has an intrinsic value, just as far as that use was consistent, referring everything to a single standard of some kind of a metal.

FIRST PRINCIPLE OF THE COMMISSION BILL.

That led us to the first proposition in this bill. Of course it follows as a consequence that the coinage of the silver dollar, unless it should be brought back, as our fathers brought it, to its exact relation according to its intrinsic value to gold, could not go on. If we were to put any number of grains of silver in a dollar, so the metal in it would be worth exactly as much as the gold dollar, then you would have bimetallism, and if you chose to say so, by law, you could have a legal double standard, which would be a double standard, so long as the metals kept exactly alike, but which would be a single standard in practice the moment either metal departed from the other downward. If gold departed down from that proportion of silver in the silver dollar, then gold would be the paying-out thing that everybody would use, and the silver dollar would disappear, as it did once before. If it were the other way, as our human experience leads us to suppose it will be, for some time to come, at least, then the gold would disappear, and the depreciated silver dollar would take its place in transactions, but all referred to its real value in a standard, the pieces of which have been kept in the pockets of the people or in banks. That, therefore, explains the principle on which the commission felt itself bound to report, with no prejudices, with no politics, with no private objects, so far as I am aware, but representing the business and knowing the habits and necessities of the various parts of the country from which they came.

UNITED STATES NOTES.

The next question is the value of the United States and Treasury notes—we broadly use the words United States notes.

We have been under the impression, after a most careful examination, that it is not a part of the function of the Government—the wise function

of the Government—to put out any obligations that it is liable to pay on call. That we thought fundamental in the principle of a Government as distinguished from a bank or a capitalist, and by a capitalist I mean a working man who has got \$10 ahead which he can lend to his neighbor and have \$5 to buy a barrel of flour with, just as much as I do a Vanderbilt or a Gould. Everybody who has any money to spare is a capitalist. Now, the moment he lends his own money to a borrower, the borrower is supposed to use that money in some transaction, and to have some security behind it. When a bank issues its own notes, which are a call thing, they are payable on demand and are like the note of an individual. When a man gives his note for money borrowed it is supposed to be based on goods, or a mine, or a manufacturing enterprise, or whatever it may be, behind that note.

But when the United States pays out one of its notes it does not take the note of somebody else to replenish itself with—it does not take 100 bales of cotton, for instance, but it pays a debt. It has given its note, payable on demand, for a debt and there is nothing in the Treasury to show for it because the goods it has bought have been consumed in the national family at once—the rivers and harbors and Army and Navy, things which are embraced in the appropriation bills. The money is gone, and there are no assets behind it except the patriotism of its citizens engaged in public business. The situation is absolutely different as a business transaction from that of any other kind of a demand obligation. So we asked if the national-bank note business is safe?

I believe the United States, and I think almost all other nations, never, or hardly ever, borrow money to pay their expenses, in the ordinary sense of borrowing instead of paying out these United States notes, which are merely on call. They borrow on bonds. That has to be repaid in some kind of money, or raised by taxation from the people.

Being somewhat of a protectionist, I think that a good deal of it is raised by taxation of capitalists and manufacturers of other countries. I believe a large proportion of the people of the United States do not pay any increased price on goods by reason of the tariff; but I will not go into that now. I only refer to it as an illustration of what I am saying.

The United States has to pay by some means, and not by profit, as everybody else does. We have had the experience of the country, and we thought that showed the system to be unsafe, and that the people of the United States have lost very large amounts, which are incapable of definite computation, by these runs on the Treasury, in an endeavor to keep up the credit of the Government by meeting these demands, made sometimes by speculators, but more often by panics and disturbances in the business and political world—just as, I am sorry to say, may happen in six months from now—which no one would be to blame for, but which might strain the United States very heavily, indeed. Not that we should not meet our obligations, but we might do it at an enormous cost, which would be a different condition of things from what there would be if we did not have out almost a thousand million dollars of demand obligations of the United States.

So we thought those notes ought to be gotten in, and we considered the difficulty that is sometimes raised, that we are thus taking away non-interest-bearing obligations of the Government on which we pay no interest, and thereby losing the interest that we might save. The commission made careful investigation of that and got the figures and statistics—which I have not at hand now—and the result of our investigation in reference to the saving of interest was that when you take all the

expenses of the accounting and the amount of reserve we have held all the time, the amount of interest we have saved, in round numbers would not amount to 1 per cent; I do not remember exactly, but it was not more, I think, than 1 per cent a year. In fact, balancing the account on honest business principles, taking all debits and credits on our outstanding Treasury and United States notes, we found that it was almost entirely an illusion to suppose we are saving much of it.

NO CONTRACTION OF THE CURRENCY PROPOSED.

Then it was said, in 1878, when I was in Congress, after we had passed the act of 1875—which act, if we had the manhood to stick to it, would have saved us all this trouble—"You are contracting the currency." Everybody knows that in this country, and in every other civilized country, the amount of actual money per capita that is necessary to do the business now is not over a quarter as much as was necessary fifty years ago. In any village or city one dollar in your pocket or my pocket will do a great deal more work than it would do fifty years ago. You go to a shop and pay out that dollar. If you had that dollar marked, and there were not too many banks in the community so that you could trace it up, you would find that same dollar would do ten distinct cash transactions that very day, and that dollar would be ready to do the same work the next day, it going round and round. You would find it had done the business of ten dollars. So an immense sum, a greater sum in proportion, was necessary even twenty-five years ago than it is now.

But in the second place, in what we have proposed we do not contract the currency by the gradual redemption of these notes, for the reason that for every dollar that ever comes into the Treasury in paper there is paid out a dollar in coin, which is now held in the Treasury to meet it. Therefore, for \$100,000,000 of United States notes which come in, \$100,000,000 in coin that is now locked up has gone out to take their place. There is therefore no contraction of the currency.

In respect to keeping up a more convenient circulating medium than coin, I will say that I have not been troubled with carrying all the coin I could get hold of. We have provided that this process shall be gradual, and after we have made a start of \$50,000,000, which does not contract the currency at all, for \$50,000,000 of coin is exchanged for \$50,000,000 of paper, then the scheme which we have proposed moves directly in proportion to the increase of national-bank circulation, so that the paper money of the country will continue to be as abundant as it was before.

PROPOSED NEW CURRENCY AS SAFE AS THE OLD.

Then the question will come—a most important question, undoubtedly—whether this new paper currency is going to be as safe for the people of the United States as the old United States currency which is to be withdrawn. One would naturally say, if he did not stop to think a little about it, that the currency of the Government was much more safe than the currency of anybody within the Government, or of its citizens, or of any corporation or combination of its citizens.

Now, the difference between a Government note and a note of one of these corporations, with respect to getting your pay upon it, is this—and I would say it was a very important difference, when bad times come

for the Government, and when they do not come, it is not so great—if the bank does not pay, the citizen who holds its notes has the compulsory process of the Government, just as between private persons, to compel them to pay. Then the question would be whether the bank, your debtor, has the funds to pay it. That would depend upon the securities the law requires the bank to keep, to make good its obligations. I will not go into the details of that, because Mr. Fairchild, who is skilled in that question, can explain it to you better than I can, if you desire him to do so.

But the difference, on the other hand, between the notes of a private corporation and the notes of the Government is that the Government can not be compelled to pay. It depends upon its own honor and its own capacity whether it will have any assets or not, and if it has assets whether it will pay. Our forefathers, in Continental times, issued the Continental money with the best intentions, and it was really a forced loan, as were our greenbacks, when they were first put out, if you look at it straight in the face—a good many people think we could have helped it, but I do not think so—but our forefathers found that whether the Government would pay depended upon its capacity to do so. It only depends on the will of the debtor whether the Government will pay or not, in the case of the Government. If the will is good it may depend upon the capacity, as we know by our own Government and by many State governments in this country and many foreign governments also. In very recent years of South American history, for instance, in the matter of the Argentine notes, the noteholders of these government obligations have been paid off on a reduced scale, because the governments have gone into bankruptcy and have paid off on a reduced scale or renewed their debt on a reduced scale.

Therefore it is manifest, when you look at it distinctly and fairly, that the note of a private corporation, which is only a body of private persons, when properly secured by the requirements of law and held up to that security, is in the end a safer thing for a citizen to hold than a promise of the United States or Great Britain, or any other country, in the very philosophy of it, and so experience has proven in the very fact of the result. Thus, if a banking system is so guarded that there shall be at all times in the hands of the governing power a fund large enough to redeem all these notes in order, kept up all the time by contributions from all the banks, we think it is safer in practice and principle than the promise of the Government to pay.

IMMEDIATE ACTION DEMANDED.

This, gentlemen, is, in general outline, the scheme that we have thought it wise for the people of the United States to adopt. We have thought that it is wise to adopt it now; and we have thought that human experience has shown, most clearly shown, that the best time to rectify any imperfection in the social order, in business order, in finance, is in the time of comparative steadiness, in the time of peace and prosperity; and that there is no hope at any time of rectifying evils of this kind and character—or indeed almost any other evil, except those which it requires the strong force of arms to rectify, as defending national honor—at the time when the difficulty arises. The time to prepare for an emergency is when the emergency is comparatively far away. If everything is steady, and everything looks prosperous, that is the time to prepare for a storm; to use a very old simile, if you will pardon me,

we should see that the ship of state is strong and tight, so that when the storm comes she will be prepared for it; that she will be stanch and well manned and ready for the voyage.

We can see how this has worked in times gone by, and it has always worked in the same way. Wise nations have taken pains to hasten to rectify such evils as this, and are taking such steps to day to put themselves on a footing that will be of great advantage when the stormy times come. They are putting things in such a condition that they may be easily accomplished when the stress comes.

I shall be glad to answer any questions of the committee.

ALL EXISTING OBLIGATIONS CONVERTED INTO GOLD.

Mr. COX. I read from the second section of the bill, as follows:

That all obligations for the payment of money shall be performed in conformity with the standard provided for in section one: *Provided*, That nothing herein contained shall be construed or held to affect the present legal tender quality of the silver dollar, or the subsidiary or minor coins, or the paper currency of the United States.

That all obligations of the United States for the payment of money now existing, or hereafter to be entered into, shall, unless hereafter otherwise expressly stipulated, be deemed and held to be payable in gold coin of the United States, as defined in the standard aforesaid.

Now, the point of my inquiry is this: Under that section, if this bill were to become a law, would it not convert every obligation of the Government of the United States into a gold obligation, and would it not convert every debt between individuals into a gold obligation?

Mr. EDMUNDS. It would convert, I think, every obligation of the United States into a gold obligation, except some very little that is left out, what are called, I believe, old currency notes, that are payable in currency, and all of which are not in. As regards the United States, I think you may state it broadly, with here and there an exception, that that is what it amounts to.

Mr. COX. We agree as to that proposition as to the obligations of the Government. Now, the second part of my question goes a step farther. Does it not also convert into gold obligations the existing debts between individuals?

Mr. EDMUNDS. To that I answer emphatically, no, for the reason that we have said in the statement of obligations of the people generally, at the opening of section 2, that they shall be performed in conformity with the standard provided for in section 1. That is the standard actually in existence for some time by the conduct of the Government, without going into the disputed question of whether the Government is bound to do that or not.

Mr. COX. Of course we will try to avoid that argument for the present.

Mr. EDMUNDS. Yes. It is just what everybody is doing now, and they are doing it either rightfully or wrongfully, because the bank notes are payable in lawful money. The bank notes are paid in gold whenever they are presented, and that is why the gold reserve is kept up; and the silver dollars are kept equal to the gold dollars, because, as everybody knows, you can get gold for them when you want it. I will not go into that. But then, to make it absolutely sure, we put in the proviso—

That nothing herein contained shall be construed or held to affect the present legal-tender quality of the silver dollar or the subsidiary or minor coins, or the paper currency of the United States.

As between people, that is exactly where it stands now.

Mr. NEWLANDS. Where is that provision?

Mr. EDMUNDS. At the bottom of section 2 of the bill.

Mr. COX. We settled the proposition that it converts all the Government obligations into gold obligations.

Mr. EDMUNDS. Yes, sir; in round numbers.

Mr. COX. And the proposition we are now on is as between the citizens and their liabilities. If you establish the gold standard—and, it being the standard, all other moneys must be equal to it—is not the effect, logically, that you would convert every other obligation between the citizens, in the payment of debts, into gold, or silver, which is the equivalent to gold?

Mr. EDMUNDS. Certainly; if you say that all the obligations of the citizens shall be performed in accordance with the gold standard, and that they may perform them with the paper money of the United States, or with the silver dollars, which are to be held up to the gold standard by the United States, then, in logical effect, every man who pays a debt does it in gold, although it is paid perhaps in a piece of paper which has no value at all in itself, because he can get the gold for it when he chooses to go to the Treasury. So, in logical effect, as you say, the standard is gold, although the medium of performing the standard may be paper.

Mr. COX. One step further upon that line. The logical effect is to convert every obligation of debt, both public and private, in its payment discharge, into gold—not directly, but its effect is that—because there would be no difference between paying it in a silver dollar, if a silver dollar was equal to a gold dollar, and paying it in a gold dollar. You make the remark that that would be the logical effect because he could get the gold for the silver or the paper money if he wanted it. Now, where would he get it?

Mr. EDMUNDS. A man who gets his gold on a United States dollar is the one we are talking about. He gets it by going to the United States subtreasury.

Mr. COX. With the paper?

Mr. EDMUNDS. With the paper; he goes there and gets his gold. And so the consequence to the people of the United States is that every man who works on the street to-day who gets his dollar—his piece of paper—has got in effect, as you say, a dollar in gold in his pocket.

Mr. COX. Suppose that laborer, when he finished his day's labor, got a silver dollar. He has got it, in effect. Now, he wants to convert that silver dollar—the amount, of course, has nothing to do with it—into a gold dollar; and you say he gets it from the Government?

Mr. EDMUNDS. Yes.

Mr. COX. So the proposition is plain, under your theory, that the holder of either paper money or silver money can apply to the Government and have his money redeemed in gold.

Mr. EDMUNDS. That is it exactly, I am very happy to say.

Mr. COX. Whatever may be the pride about it, that does not change the difference of opinion.

Mr. EDMUNDS. No; but people can be accurate although they think very differently.

Mr. COX. To come back to the proposition, I will ask you, as a lawyer distinguished for the construction of the Constitution, when you make the remark that in effect, for a number of years, silver dollars and paper dollars were redeemed by the Government in gold at the

option of the holder, has not that been brought about by a construction of legislation and not by direct legislation?

Mr. EDMUNDS. Well, I should not want to answer that question fully in the affirmative, for this reason. There are three or four hundred million dollars of silver in existence, the demand obligations of the United States being, I will say in round numbers, double that. These obligations, I suppose, are payable in coin, for everybody will agree that the United States notes, which say "pay one dollar" do not mean that the Government will, when a note is presented, pay off that note in another note. Therefore, it must mean that it will pay off the note in coin. Take all our paper obligations. Suppose they were all brought to the Treasury and all the silver and all the gold was there enough to pay them off, there would not be silver enough, and therefore if we paid off all silver to begin with there would be some notes left which we would have to pay off in gold. Both silver and gold are "coin," but—and I am not going into a 16 to 1 argument—the silver dollar is not worth 25 or 23 grains of gold—or whatever the number of grains is.

We know the American silver dollar, which, I understand, has not so much silver as the Mexican silver dollar, is worth twice as much in Mexico as the Mexican dollar. The reason is that the Mexican, when he gets the American silver dollar, knows that when he brings it into the United States he can get a gold dollar for it, and that in substance it is worth a gold dollar, because the honor of the United States is bound by a declaration in the statutes to keep the metals at a parity. It would not be parity if a man came to the Treasury and wanted gold to say that they would not give it to him, because that would be disparity. So I say I could not answer your question directly in the affirmative.

AFFIRMING THE GOLD STANDARD.

The CHAIRMAN. You have presented this bill, Mr. Edmunds, with a view to having it adopted by Congress if it gets before the House and Senate?

Mr. EDMUNDS. We have not presented the bill, Mr. Chairman. Our commission was to do what our constituents, respectable people of the United States, asked us to do as citizens—to tell them what we thought the situation was and how it could be remedied, and it was for that reason we did not send our list of questions to any of the gentlemen of this committee, as we did not think it would be delicate to do so, situated as you were. Therefore we had nothing to do with the Congress of the United States, and we endeavored to behave toward you so that you would be sure that we were not endeavoring to embarrass you in any way. We simply made our report. I should never have thought—and I am sure most of the gentlemen of the commission would never have thought—of appearing before you as the advocate of any bill. We came because you kindly invited us as the chairman of the Banking and Currency Committee of the House, this bill having been introduced by some one—I did not know it was introduced until I came here to-day. I had nothing to do with the introduction of the bill. Therefore, so far as the bill is concerned, we only came at your invitation to give such information and present such views as we have and answer such questions as you may ask us.

The CHAIRMAN. Let me say in reply that the committee—I think every one of them—feel under very great obligations to the gentlemen who have been instrumental in preparing this bill, because it must in

the end assist them to a conclusion. The difficulty that we have found thus far is that citizens give us their views without putting them in a tangible form, and this bill was prepared by your commission—practically prepared by your commission—with a view of its being presented to Congress.

Mr. EDMUNDS. Yes, sir.

The CHAIRMAN. It took about seven months to enact the provisions of the act of July 14, 1890, and it took four or five months to repeal the purchasing clause of that act. Here is the law of the land, Revised Statutes, section 3511. I will read:

The gold coin of the United States shall be a one-dollar piece, which at the standard weight of 25.8 grains shall be the unit of value.

That is the law to-day. The act of July 14, 1890, reaffirms that in the following words:

It being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided by law.

The act of November 1, 1893, repealing a part of the act of July 14, 1890, again reaffirms section 3511 of the Revised Statutes in the following words:

And it is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money, and coin both gold and silver into money of equal intrinsic value, such equality to be secured through international agreement or on such safeguard of legislation as will secure the maintenance of the parity in value of the two metals.

The CHAIRMAN. My question is this: Does section 1 of this bill add anything whatever to the law or change the existing conditions?

Mr. EDMUNDS. I think, Mr. Chairman, speaking with the absolute frankness which I think is due to legislators, that the section is extremely desirable, if not necessary. Speaking technically, because we do not know what a court would do, it is not absolutely clear to my unsophisticated mind, in view of these provisions which you have read, that we have not now a legal double standard; that the silver dollar is not made legal tender at the present ratio. Now, although it says—and probably that is the law—that the act of 1873 made gold the standard, it was our purpose to make it absolutely clear, so everybody would understand it alike. It ought to be absolutely clear, whichever way it is.

The CHAIRMAN. Do I understand you to say that the silver dollar is a legal tender to-day?

Mr. EDMUNDS. Yes, sir.

The CHAIRMAN. Do I understand you to say that this section 1 is designed to annul the legal-tender quality of the silver dollar?

Mr. EDMUNDS. Quite the reverse. It is designed to make definite the gold standard without stating the ratio of the silver dollar to so many grains of gold.

The CHAIRMAN. Is it not so stated in the law I have just read?

Mr. EDMUNDS. I think that is the result; but it is not so clear but that gentlemen who know as much law as I do and perhaps a good deal more, greatly doubt it, and therefore the commission sought to make it clear and beyond all cavil by stating it thus.

The CHAIRMAN. Then, I understand that it is the understanding of the framers of this bill that existing conditions as to the gold standard are changed by this bill?

Mr. EDMUNDS. No, sir.

The CHAIRMAN. Then I want to ask a question on that.

Mr. EDMUNDS. Permit me to say that the existing conditions, as I think, and as the commission thinks, are not changed as to the gold standard, but doubt and capacity for dispute in respect to that is removed. We think there is a danger of a leak in the ship, not big enough to sink the concern, but it is better to make it clear, and let no water in at all. It is open to philosophical and legal construction to maintain, and I think I could make quite a decent little argument, and I know Mr. Newlands could, to maintain that there is now, by law, a double standard at the ratio of $15\frac{1}{2}$, or whatever it is, to 1; and leaving the law as it is, when the question comes up the court might decide you have a double standard at the ratio, in round numbers, of 16 to 1. We do not think so. We do not think the law is to that effect, but inasmuch as the law is open to doubt in honest minds, as soon as there is a contrary opinion in honest minds, it is the business of Congress to make it so that two honest minds will see it alike.

The CHAIRMAN. My question that I was leading up to I will now ask. Do you think this committee would be justified in reporting a bill to the House that would involve months of discussion of that question—you know there are 357 members in the House, and you have served in the Senate, and know about such things—when the subsequent provisions of the bill might accomplish the purpose without the statement in section 1? And as we have had a discussion here between the honorable gentleman from Tennessee and yourself, so there would be as many discussions in the House, and you can see the time it would take, and you can see the difficulties.

Mr. EDMUNDS. That would depend upon the degree of doubt or difficulty that really existed. If there was a great preponderance of opinion that the law is so clear as it now stands that there is no danger of a difference in construction being put upon it by any court or any Congress, and so forth and so on, then I would say that I would not do it, that I would take the infinitely small risk. But, on the other hand, we thought if it was open to a discussion as to its construction that the double standard still legally exists, and especially, in view of the fact that the act of 1873 abolished the silver dollar so far as its future coinage was concerned, that it was better to do as we did. And of course, in regard to all such things, you can carry it to a point where it is absurd to waste time about a foolish contention; but where a contention is not foolish, from my experience in the Senate, and my later experience has strengthened that view, I thought, and I think the commission with which I was connected thought, that the true thing for the committee to do was to report what it believed to be right, entirely right, and stick to it.

The CHAIRMAN. You would lose the whole bill rather than take the chances on the law as it stands?

Mr. EDMUNDS. I do not say that, because that would depend on what other gentlemen, with whom I would confer, would say. It would, perhaps, be possible to get some notion what a man on the bench for life would think, because he would have no bias or prejudice affecting him as to what the people might think about it. If I were in charge of this bill at this minute, I would stick to that thing, with the explanation I should give of what might be said as to the existing law; and if I were satisfied, after discussion, that it was only some irresponsible and unlettered Vermont Senator who did not know enough to see that there was nothing in it, then I would abandon that and let it go.

The CHAIRMAN. What proportion of this bill is reenacting existing law?

Mr. EDMUNDS. I have not counted it up, but a great deal of it, as to banking, leaves the existing law as it is.

The CHAIRMAN. Reenacted?

Mr. EDMUNDS. Reenacted so as to get it all into one bill.

The CHAIRMAN. With your experience, is it not a fact that there would be as much opposition and discussion on the floor of the House in regard to reenacting the existing law as there would be in making new law?

Mr. EDMUNDS. Yes; but at the same time when you go into Congress, if you have a patchwork of legislation so that you can not exactly tell what was the old law, instead of making a systematic scheme it would make things very bad. I think it is wiser to do this than it is not to put a bill into the correct and best shape.

Mr. McCLEARY. Is not this true, that if it is clear in men's minds that this makes no change, then the debate will be short, and if it is not clear, then it ought to be debated until it is made clear?

Mr. EDMUNDS. Yes, sir.

Mr. COX. This means to establish the fact beyond any doubt that the standard of money in this country is gold.

Mr. EDMUNDS. Undoubtedly. We tried our best to make that so clear that the wayfaring man will see it.

Mr. COX. Going back to the subject we were on, the redemption of the silver dollar in gold, on page 4 of the bill it is provided that you shall pay out—establishing a bureau very much like that provided in the Secretary's bill before us—shall pay out gold coin in exchange for silver dollars. So, in effect, the holder of paper money or the holder of silver dollars has a right to demand of the Government their redemption in gold.

Mr. EDMUNDS. I do not hold that any man has the right to demand the redemption of a silver dollar in anything.

Mr. COX. This bill makes it obligatory.

Mr. EDMUNDS. I beg your pardon; the bill does not provide for the redemption of silver dollars. The word redemption does not apply to any except subsidiary coin, which has always been provided for by law. It never has provided that for the silver dollar, and I do not want it to, and the commission does not want it to. A silver dollar is a dollar in itself, but we say it shall be kept as good as gold by a mutual interchange. When it comes in it is paid out again, and we intend it shall be paid out again.

Mr. COX. In other words, so as to preserve that equality, the Government shall exchange one for the other if so desired?

Mr. EDMUNDS. That is it.

Mr. COX. If this bill is put into law and the plan goes into working operation, will it not result necessarily in the clear establishment of the gold standard, and consequently will it not eventually retire all the paper circulation of every kind and character except that which may be issued by the banks?

Mr. EDMUNDS. That is it.

Mr. COX. Then we would have the gold standard under this bill and all the paper currency we would have would be the bank notes?

Mr. EDMUNDS. Yes, sir; and the silver certificates.

Mr. COX. The silver certificates of course represent the silver dollars that are behind them.

Mr. EDMUNDS. You would have three or four hundred million dollars

in silver certificates, you would have national-bank notes, you would have gold coin, and you would have subsidiary silver coin and minor coins.

Mr. SPALDING. In your opinion, what was the standard of value prior to 1873—the legal standard?

Mr. EDMUNDS. I think the legal standard was what we call the double standard, the silver dollar at 412 grains, or whatever it is, and the gold dollar at 25.8 grains, or whatever it is.

Mr. SPALDING. It is true that every bond issued up to that time was issued on the standard of July 14, 1870?

Mr. EDMUNDS. I do not remember the date.

Mr. SPALDING. The date is recited on the bonds.

Mr. EDMUNDS. It would really be the standard established in 1792, when you go back to that.

INCREASED USE OF CREDIT INSTRUMENTS.

Mr. NEWLANDS. In your remarks you stated, if I recollect correctly, that improved methods of credit and improved credit instruments had largely diminished the necessity for actual coin or money?

Mr. EDMUNDS. I think so.

Mr. NEWLANDS. Do I understand by that that the increase of credit instruments has worked a contraction in the amount of actual money in this country or in the world?

Mr. EDMUNDS. I am not prepared to say that it has, and I have endeavored, so far as I could, and the commission has also endeavored, to take care that the effect of this bill shall not be a contraction. We leave that to the laws of trade and the necessities of the world, to contract or not as business may require. The law does not make any contraction, as we think.

Mr. NEWLANDS. Is it not true that the actual amount of money required is not diminished, but that the credit system itself has been largely increased and built up upon the actual volume of money?

Mr. EDMUNDS. I do not think that would follow, Mr. Newlands. I think the increase of business has not been built up on the actual amount of money. There has been a vast increase, and there ought to have been a wise increase, and in the main it has been a wise increase, in the productions and activities of our people in this beautiful country of ours, on credit, and not on money at all, and if the amount of actual money in each country had not been half as much—of course I am speaking in round numbers—not nearly so much, the activities of the country would have gone on. Perhaps they would not have gone on in so great proportion, but the industry, the exchange, and shipping abroad and the home consumption, the home markets, do not entirely or in the largest degree, I think, depend on the amount of capital in the country. It depends on the earth and the brain and brawn of men.

Mr. NEWLANDS. Leaving out that question, whether there is any relation between the amount of credit and the amount of money—

Mr. EDMUNDS. I do not say that there is no relation.

Mr. NEWLANDS. You think there is some relation?

Mr. EDMUNDS. Undoubtedly; I said so.

Mr. NEWLANDS. Is it not a fact that the debts of the world have largely increased in the past twenty years?

Mr. EDMUNDS. Undoubtedly they have increased in volume.

Mr. NEWLANDS. That means that the credit system has been expanded, does it not?

Mr. EDMUNDS. It means that the credit system has increased.

Mr. NEWLANDS. Now, what I want to ask is, as the credit system extends does it necessarily follow that the actual amount of money should diminish?

Mr. EDMUNDS. It does not, in my opinion.

Mr. NEWLANDS. Is it not true that money is used differently to-day from former times; that to-day, instead of being actually carried in the pockets of the people and used in all their transactions, exchanges, etc., it lies for the most part in banks, as reserves for securing depositors?

Mr. EDMUNDS. I think that is measurably true, but not with the strength that you have stated it. I think there is a great deal more money in the hands of the people—in their pockets and stockings and tills and bureaus, and some people put it in their stoves, by mistaken ideas of investment—than is generally supposed; but speaking generally and in round numbers, a great deal of money that fifty years ago was in the actual hands of individuals is now in the banks and trust companies and savings banks instead of being in the pockets of the people. I can remember myself, when I was a lad, a transaction in which my father sold a piece of land to somebody and the purchaser brought from several miles away—there was not a bank within 30 miles—what would be a wheelbarrow load of Mexican dollars. The “dollar of our daddies” had disappeared even then. That was in the thirties. He piled it out on the table and of course it was an astonishing sight to a lad of my age. A transaction of that kind would be made nowadays by his giving in his check and then the check would be sent to the bank and deposited. That bank to-day might have done \$75,000 of the actual business transactions of many people that very day on that same \$5,000 that my father was paid for the land.

Mr. NEWLANDS. I understand, then, you say that in your opinion the amount of money in the pockets of the people has not been materially diminished, but that added to it now are large amounts of money in banks subject to check?

Mr. EDMUNDS. As to the money in the pockets of the people, I do not know what you mean by “materially,” but I think it has been a good deal diminished, although there is still a great deal in possession of the citizens of the United States—a great deal more than is generally supposed.

BANK RESERVES.

Mr. NEWLANDS. At all events there are large amounts in banks subject to checks?

Mr. EDMUNDS. Undoubtedly.

Mr. NEWLANDS. That money serves a useful purpose in the banks, does it not?

Mr. EDMUNDS. Sometimes it does and sometimes it does not. It served a very bad purpose in Philadelphia the other day.

Mr. NEWLANDS. Do you mean to say it is an injury to a bank to have money on deposit, actual money in its vaults?

Mr. EDMUNDS. I do not, in general, if the bank is wisely managed; it is then a benefit to the people, and a benefit to the stockholders, because they get some income on it.

Mr. NEWLANDS. But you can not conceive of a bank transacting business without having money?

Mr. EDMUNDS. I can not conceive of a good bank doing that.

Mr. NEWLANDS. Therefore, this money to-day serves a purpose that it did not to the same extent years ago, in that it constitutes a reserve, it constitutes a material that is checked out by depositors.

Mr. EDMUNDS. Or cross checked. Money is rarely checked out.

Mr. NEWLANDS. It very rarely goes out?

Mr. EDMUNDS. Very rarely, and is able to do ten times the business it otherwise would do.

Mr. NEWLANDS. I agree with you there, but it is necessary that it should be there?

Mr. EDMUNDS. It is if the banks are going to do business.

Mr. NEWLANDS. I want to ask you what is the proper percentage of deposits for a bank to retain as a reserve?

Mr. EDMUNDS. That is a question about which gentlemen of equal intelligence and experience disagree. It would depend on whether the bank is well managed. I should say that the amount of reserve that we have provided in this scheme of ours, on the assumption that the banks are well and conservatively managed, would be about the right amount. I do not remember exactly the figures. We differed in the commission; one gentleman might think that a certain amount of reserve was required, say 25 per cent; and another that 15 per cent was enough, and so on. As I have said, it would depend upon the bank and how it was managed, as to what reserve would be required. If you have a conservative bank, the directors of which are not borrowing much money, but making purely business loans on paper which it criticises, and distributing its loans, as an insurance company distributes its risks, then a comparatively small per cent of reserve would be necessary. If, on the other hand, you have a bank that is more dashing and less conservative, that particular bank ought to be required, if there was any way of measuring it, to have a larger reserve.

Mr. NEWLANDS. What reserve did you determine upon in this bill?

Mr. EDMUNDS. I have not the bill at hand.

Mr. FAIRCHILD. The same as now.

Mr. NEWLANDS. Twenty-five per cent in reserve cities and 15 per cent in other than reserve cities.

Mr. EDMUNDS. Yes, sir. We will endeavor to strengthen that up a little as to where the reserve shall be kept.

The CHAIRMAN. I think it was agreed that one of the other gentlemen should answer questions on this point.

Mr. EDMUNDS. Yes; but of course I am glad to answer any questions I can. Mr. Fairchild is perfectly familiar with the banking part of this bill and will explain fully on that point if you desire him to do it.

The CHAIRMAN. Do you think the banks to-day carry greater reserves than are required?

Mr. EDMUNDS. I do not think so.

The CHAIRMAN. Those reserves to-day under the law consist entirely of legal-tender money?

Mr. EDMUNDS. They may.

The CHAIRMAN. May they consist of anything else?

Mr. EDMUNDS. I thought you meant paper. They consist of coin or United States notes.

Mr. NEWLANDS. Gold, silver, or United States notes?

Mr. EDMUNDS. That is it.

Mr. NEWLANDS. The national-bank notes constitute no portion of the reserve, I believe?

Mr. EDMUNDS. They do not, by law.

Mr. NEWLANDS. Do you propose in this bill that the bank notes issued shall constitute any portion of the reserve?

Mr. EDMUNDS. By no manner of means, and we go a step farther, and

require that no bank shall count as a part of its money on hand its own notes.

Mr. NEWLANDS. Let me ask you this further question: Assuming, as shown by the Comptroller's report, that the banks of the country have between \$250,000,000 and \$300,000,000 in gold, over \$200,000,000 of the \$346,000,000 in greenbacks in their reserve, I ask you would it be possible to retire \$200,000,000 of greenbacks without seriously affecting the existing reserves of banks?

Mr. EDMUNDS. I think it would be possible.

Mr. NEWLANDS. You would substitute gold coin for the greenbacks they have now?

Mr. EDMUNDS. Yes, or silver dollars. I am in favor of the use of silver dollars, and our scheme contemplates the use of silver dollars.

THE SUPPLY OF GOLD.

Mr. NEWLANDS. Assuming that we could get no gold from other countries, and that we rely entirely upon the lawful money that is in this country and upon the gold that is in this country to take the place of the \$200,000,000 which you require, where will you get that \$200,000,000 in gold?

Mr. EDMUNDS. More than that amount of gold is in the country now; a great deal, as I think, and I will answer in addition, Mr. Newlands, apart from your assumption, that my reading and experience has taught me, and I have no doubt that it has taught you, that gold and silver, the precious metals, as they are called, are under no law of tariff, or under no law of inclusion or exclusion; that they go just where they are most wanted. They go wherever there is a demand for them. Wherever they are wanted, there they will go, their movements differing even from breadstuffs, where movements are affected one way or the other on account of tariffs. I don't know but there was once a duty on the precious metals, but it did not work; but no country has yet succeeded in controlling by law the movements of the precious metals. Gold and silver flow like the atmosphere and are governed by a law like the law of gravitation, and, therefore, as to drawing a line in the territory of the United States as to where the supply would come from, if you will pardon me for saying so, I think it is a little sophistical.

Mr. NEWLANDS. Let me explain. I propose to divide the question into two parts. I first propose to ascertain whether you could get the gold from this country; and secondly, if not, then from what countries you could get it. I quite agree with you that gold will flow wherever it is required. The Comptroller's report shows that almost all of the silver certificates, which represent of course the silver coin in the Treasury, are in the hands of the people in general circulation—in the pockets of the people, and not in the banks.

Mr. EDMUNDS. You mean the smaller certificates.

Mr. NEWLANDS. Well, almost all. The banks hold very little silver, according to the report I refer to.

Mr. EDMUNDS. I think the banks have largely got the big silver certificates. I never saw a silver certificate over \$20 in circulation in this country in my travels, and I have done a good deal of traveling. They may be in savings banks or brokers' offices, but they are not in actual circulation. With one exception, which was only a few days ago, I have never seen a silver certificate pass from man to man above \$20 in denomination.

Mr. NEWLANDS. Is there any large amount of these silver certificates of the thousand-dollar denomination?

Mr. EDMUNDS. I do not know about certificates of the denomination of \$1,000, but a large amount are in denominations over \$20. That is in our report.

Mr. NEWLANDS. On page 33 of the Comptroller's report he says "that the amount of coin and other currency held by the banks was \$628,000,000, classified as follows: Gold, \$242,000,000; silver, \$53,000,000; legal tenders, \$246,000,000 (I presume that means greenbacks); specie not classified, \$2,000,000; cash not classified, \$82,000,000." So you see, according to this, only \$53,000,000 of silver are in the reserves of banks.

Mr. EDMUNDS. Does that mean silver coin?

Mr. NEWLANDS. Perhaps the Secretary of the Treasury can tell us that.

Secretary GAGE. It probably means silver coin; but silver certificates ought to be classified there. I think you will find it.

Mr. COX. The figures are in your report: "Outstanding silver certificates to the amount of \$384,000,000, of which \$11,000,000 are in the Treasury; \$372,000,000 are in circulation."

Mr. NEWLANDS. It is immaterial to go into that with any minuteness.

Mr. EDMUNDS. I have got it here now. The silver certificates above \$5 are given here. The division on \$20 is not given. The silver certificates above \$5 amount to \$229,205,031.

Mr. NEWLANDS. That is the amount above \$5?

Mr. EDMUNDS. Yes, sir.

Mr. NEWLANDS. Assuming that the Comptroller's report is correct, the amount of coin and other currency held by the banks amounts to \$628,000,000, of which \$242,000,000 is gold, and \$53,000,000 is silver; greenbacks, \$246,000,000; specie not classified, \$2,000,000, and cash not classified \$82,000,000. I presume you will agree with me that the rest of the money of the country must be in the hands of the people in general circulation or hoarded, one or the other.

Mr. EDMUNDS. No; there are vast numbers of trust companies, vast numbers of State banks, and all sorts of financial institutions that the Comptroller has nothing to do with, and those have a great deal of this money.

Mr. NEWLANDS. Yes, sir; but this statement, as I understand it, gives the capital, surplus, undivided profits and involved profits of national banks on July 23, 1897, and all other banks and banking institutions, according to the last report received from them. So he seems to have obtained a report from all banking institutions in the country.

Mr. EDMUNDS. Yes, sir.

Mr. NEWLANDS. Now, assuming that the coin and currency in the hands of the banks amounts to this sum of \$628,000,000, divided in this way, and the balance of the money is either in the hands of the people or in the United States Treasury, or hoarded—

Mr. EDMUNDS. In some sort of an institution or with the people somewhere, yes, sir.

Mr. NEWLANDS. Or in some sort of an institution. I ask you how can you retire the \$200,000,000 of this \$246,000,000 of legal tenders in the banks without substituting something that will take its place as reserves for depositors?

Mr. EDMUNDS. You can not. I do not think you could.

Mr. NEWLANDS. You must, then, get, as you say, either gold or silver?

Mr. EDMUNDS. Yes, sir. That is, when the time comes—when the greenbacks are all in.

Mr. NEWLANDS. Now, then, the silver, as I understand it, is practically in circulation among the people. The banks avoid holding either silver or silver certificates, and the money that is in actual circulation among the people consists mainly of silver certificates. Is not that so?

Mr. EDMUNDS. Not mainly. It consists of greenbacks, national-bank notes, and silver certificates and the United States Treasury notes of 1890.

Mr. NEWLANDS. Did you ever take occasion to examine the bank notes in your possession to ascertain what proportion of greenbacks, for instance, you would find?

Mr. EDMUNDS. No; I have enough faith in all, although it would only take a few minutes to go over my whole stock.

Mr. NEWLANDS. The Comptroller's report says that out of the \$346,000,000 of greenbacks \$246,000,000 are in the hands of the banks, and you know there is quite a large amount of greenbacks impounded in the Treasury now. Is not that so?

Mr. EDMUNDS. Yes, sir.

Mr. NEWLANDS. Pretty nearly \$100,000,000?

Mr. EDMUNDS. About \$50,000,000 or \$60,000,000 all told.

Mr. NEWLANDS. That would make \$300,000,000 out of the \$346,000,000. So there are only \$46,000,000 of greenbacks in actual circulation among the people according to that, and the rest of the money in circulation among the people must be either gold or silver certificates?

Mr. EDMUNDS. The national-bank notes, of which there is quite a respectable number.

Mr. NEWLANDS. One moment there. I am confining myself entirely to the consideration of legal-tender money that constitutes the reserves of banks. I am addressing myself to the question whether, having retired \$200,000,000 of this \$246,000,000 of greenbacks, you can find something else to take its place. Now, I assume, and I presume you will agree with me, that the people to-day have no more money in actual use among themselves, in their pockets, for their daily transactions, than is required.

Mr. EDMUNDS. I dare say that may be so.

Mr. NEWLANDS. Then you would not expect to get that money, would you, to put in the banks as bank reserves in the place of the \$200,000,000?

Mr. EDMUNDS. That would depend upon whether they chose to deposit it and take stock in banks and that sort of thing.

Mr. NEWLANDS. If they did deposit it, it would constitute additional deposits?

Mr. EDMUNDS. That would depend on whether the existing deposits were drawn out, they being in other kinds of money.

Mr. NEWLANDS. But assuming that the amount of deposits in the banks now is normal and that the people now propose to take a certain proportion and put it in the banks, that would constitute an additional amount of deposits?

Mr. EDMUNDS. Undoubtedly, unless they were diminished.

Mr. NEWLANDS. Against which additional reserves would have to be held?

Mr. EDMUNDS. Yes.

Mr. NEWLANDS. If, then, the silver certificates are in actual use among the people, if the \$40,000,000 or \$50,000,000 of greenbacks I refer to outside of the Treasury are in actual use among the people, if the gold outside of the Treasury is in actual use among the people, how can you, after retiring this \$200,000,000 of greenbacks, restore the legal reserves of the banks without depleting the pockets of the people?

Mr. EDMUNDS. My dear Mr. Newlands, there is this total amount of money in the country. If there is not gold enough, as I have said, in the next five years, for the thing does not go beyond \$50,000,000, except slowly, as the national-bank notes go out, you have the same total amount of money you had before, but you have changed its position and form. If a bank can not find the gold to hold its reserves in, then it would be obliged to decline deposits and the money would have to stay in the hands of the people. But it seems to me, with great respect to the opposite view, that it is reasoning somewhat in a circle to suppose that the actual financial use of money in the United States, in the actual condition of things to-day, leaving out the gold question, is going to be diminished by the fact that national-bank notes are to take the place of the United States currency, of whatever kind. I am not now on the question of whether it would be as good or not, but as to volume it seems to me that the same embracing circle holds it all.

The CHAIRMAN. Does not your bill permit silver to be kept in reserve?

Mr. EDMUNDS. If silver is lawful money, yes, sir; and silver is lawful money by the bill.

Mr. McCLEARY. Does not the world produce \$200,000,000 of gold a year?

Mr. EDMUNDS. Yes, sir; I think so, according to present indication. (To Mr. Newlands.) And we might possibly come to a time not ten years away, when we would have to abolish gold as a standard and make silver the standard as being the most precious of all metals.

Mr. COX. I am sure that would be done, anyway.

Mr. EDMUNDS. Whether it is precious or not.

Mr. NEWLANDS. You have stated that gold would flow wherever required.

Mr. EDMUNDS. And I believe you agreed with me about that.

Mr. NEWLANDS. Yes; it would flow wherever it was required the most, and the only question is what we have to pay for it. Can you tell me any country in the world that to-day has a surplus of gold?

Mr. EDMUNDS. I can not. I do not think there is any such country. That is why we are starving and freezing in the Klondike—to get gold.

Mr. NEWLANDS. You do not think there is enough gold in the world to do the business of the world?

Mr. EDMUNDS. No; there is not enough.

Mr. NEWLANDS. Therefore you rely mainly upon the increased production of gold in the future.

Mr. EDMUNDS. No; not for this purpose. There is plenty of gold for all these banking purposes, for this country and every other, and for the purposes of the people.

Mr. NEWLANDS. I believe you have already agreed, have you not, that if \$200,000,000 of the greenbacks should be withdrawn from the bank reserves, some of the legal money must take its place?

Mr. EDMUNDS. Unquestionably.

Mr. NEWLANDS. That must be either silver certificates or silver or gold.

Mr. EDMUNDS. When the greenbacks are all gone.

Mr. NEWLANDS. We now come to the question of the production of gold. You say it is over \$200,000,000 per annum. Have you any idea how much of that is used in the arts?

Mr. EDMUNDS. I have not.

Mr. NEWLANDS. Do you think one-half of it is used in the arts?

Mr. EDMUNDS. Oh, no; I do not think so. That is a subject I have not studied and am not competent to give evidence upon.

Mr. NEWLANDS. We get only a part of that \$200,000,000!

Mr. EDMUNDS. That will depend on the law of supply and demand.

Mr. NEWLANDS. We have 70,000,000 of people out of about 1,300,000,000 people in the world.

Mr. EDMUNDS. Yes.

Mr. NEWLANDS. How much of that annual production, then, can we expect to get, even assuming that none is used in the arts?

Mr. EDMUNDS. I would strike off first, Mr. Newlands, out of your 1,300,000,000 people, about 600,000,000 or 700,000,000 of people who do not want either gold or silver. They possibly want paper and nothing else. Now you come down to 500,000,000 people of civilized communities who have trade and business and need cash. I think our proportion of that would be quite adequate to all our needs. But all that is modified by the fact that the gold goes where the best and most advantageous use of it is to be obtained.

Mr. NEWLANDS. And to the country that will pay the most for it?

Mr. EDMUNDS. Undoubtedly.

Mr. NEWLANDS. In products, etc., and property?

Mr. EDMUNDS. Yes, sir.

Mr. NEWLANDS. You say you do not know what proportion is used in the arts. Have you ever seen a statement as to that? The statement is that more than one-half is used.

Mr. EDMUNDS. I am sure that is a great mistake.

Mr. MITCHELL. You do not mean to give the impression that the people are worse off in having strong banks instead of putting their money in stockings or stoves?

Mr. EDMUNDS. I mean to say that they are a great deal better off.

The CHAIRMAN. Gentlemen, allow me to introduce to you the Hon. Charles S. Fairchild, of New York, ex-Secretary of the Treasury, who is one of the framers of the pending bill.

**STATEMENT OF HON. CHARLES S. FAIRCHILD, OF NEW YORK,
A MEMBER OF THE MONETARY COMMISSION AND EX-SECRETARY
OF THE TREASURY.**

Mr. Chairman and gentlemen of the committee, in accordance with the suggestion of the chairman, I would state that I reside in New York City, and am president of the New York Security and Trust Company. I was Secretary of the Treasury from April, 1887, until March, 1889. I was Assistant Secretary of the Treasury for two years, and previous to that I had been a lawyer. I could also say that I was attorney-general of the State of New York for two years, and deputy attorney-general for two years.

I have very little to say, and I would prefer before saying anything extensively to answer any questions and throw any light I can on any portion of this bill to the extent of my ability.

The most I would have to offer now would be certain general considerations, which have greatly helped me in coming to conclusions upon the whole currency and banking question and the relations of government to it, which has been a process of development and change in my own mind during now quite a number of years. And to get the philosophy of such a bill as this and what is in the minds of the men who recommend it, I think that certain fundamental considerations are necessary.

THE STANDARD OF VALUE.

In the first place, as to this much-mooted question of standard, I do not believe that governments have any more power over it than they have over the tides or the winds. That is a conclusion I was forced to come to in order to explain many difficulties that I found arising under the other theories. I think all experience shows that standards of value are selected, created, by the habits of individual men, enough of them doing the same thing and the same idea going through their minds to create standards of value. It is not even a consensus of opinion among 100 people—but a man doing, with his neighbor and the man with whom he trades, that which he takes to be best. Out of that has come at all times in the world the standard by which the values are measured; and the higher you go in business methods the more exactness seems to be required in the standard.

You go into the center of Africa and you find an African tribe there. They have a certain rough standard of value among themselves by which they measure their transactions and their services. It is not bank credit, it is not gold, it is not silver. It must be some very large, more tangible thing for them. And so at different times in the world there have been these standards of value—cattle, tobacco, wampum, and what not—which have been the result of concurring habits of men, not the result of even a conscious agreement among them, and certainly not, never, the result of legislation.

Governments have adopted standards that they have found to be in existence, thus created, thus made, and in that way they have served the convenience of the people in settling dispute, making something, where you had not specified in the contract, with which your contracts were settled, and serving a very considerable convenience; but they have created nothing. They can not create anything. Now, governments have tried to change it. Governments may make a legal standard among themselves, among their own people, and attempt to change the real standard, but they only make confusion and trouble by doing that; they only make uncertainty in transactions. Men still have in their minds the real standard, which has been selected in the way that I have spoken of, by which really their transactions are measured and their values are measured, and the other thing varies as to that.

Therefore, if that is true, and I think that it is true, we have not theories to deal with; we have simply to ascertain a fact. To-day the fact of civilization is that gold is the standard by which the business of the world measures its transactions. It is not a question whether it ought to be so or not. It is a question of a fact, and a fact that we can not get away from—just as the use of steel or the use of electricity is a fact to-day. You might as well legislate that people are to use horses, to use old methods, and expect to benefit mankind, as to legislate that they shall transfer their property by some other thing than that which they choose. What Governments should do is to either leave them alone altogether or else adopt that which the result of business transactions shows to be the fact.

Repeal all your laws and all men will have to do will be to put a few more words in contracts. They will then take care of themselves. As to the standard, the Government should simply attempt to ascertain what is the fact and then for convenience incorporate that into law.

Now, you do not give a standard any value by legislation. It has got its value before your legislation said anything about it. Your legislation has not added anything to it at all; how can it add anything to it?

THE MEDIUM OF EXCHANGE.

Now, when we come to the medium of exchange of circulation, we will not only have made it a standard, but we also generally make it a legal tender. You have not added one iota of value to a thing by making it a legal tender, so far as by our human instruments we can measure it. That is shown by the experience of all mankind. What can you enable it to do when you make it a legal tender? You enable it to pay past debts. Apparently, at first blush, it would seem as if that gave great value to the thing, but historically we have found that plenty of the moneys which have been invested with the legal-tender quality have become utterly valueless. Those moneys generally had the credit of the issuing Government behind them, and when that credit disappeared the legal-tender quality, for some reason or other, failed, in instance after instance, to retain any value whatever in that money, although there must have been plenty of past debts that could have been paid with it.

I found it necessary to try to get an explanation of those phenomena, because they seemed to contradict what would seem to be a reasonable theory. They did contradict a reasonable theory, that investing a thing with legal-tender quality would give it value. But when you come to examine you find that the reason that that legal-tender quality is so powerless is that the number of past debts which become due and are payable in any particular period, day, month, or year, is so small in comparison with the current transactions of that same period, that, as it were, they become an infinitely small quantity, and therefore if the thing will not carry on current transactions the one thing that it will do is very feeble in giving values, important as it is to the particular individual who has a debt to pay. But it is not only unimportant, comparatively, in amount, but unimportant in the services that man requires money to perform, namely, to keep you alive while your debt is becoming due, and to give you food and clothing and shelter. Then it is not money; it has no value.

If the census of 1890, where it is attempted to show the past debts of the country of one kind and another, be compared with the clearing-house transactions of any year, you will see that not more than 4 per cent of the transactions of any single year can consist of the liquidation of debts that antedated that year; and that is a comparison simply with the clearing-house transactions, and we know that there is a vast body of transactions that do not appear in the clearing-house transactions at all. Therefore the liquidation of past debts is statistically shown to be relatively very small as compared with current transactions, and the final consideration is that it must be so, because out of what fund are you going to accumulate the money with which to discharge past debts? It must be that the only place from which it can be gotten is from the profits of current transactions. Therefore the current transactions must bear an enormously greater proportion to past debts.

I have stated these general considerations, gentlemen, assuming that what we are all seeking in this matter is to get at the exact truth. I have tried to do so in my consideration of this matter for a number of years, and I have tried to solve to my mind some things that puzzle me; and as the result of just these considerations I have come to the conclusion that the Government is absolutely powerless in the presence of this question so far as creating or conferring any value either by making a thing a standard or making it a legal tender; and therefore its duty was to ascertain what had been selected as the standard by the

concurring habits of the people who would wish to use money in their transactions, and then establish it accordingly. If you attempt to do anything else, if you are mistaken in the fact, it will soon manifest itself by the confusion that will arise in your transactions.

So much for that general consideration as to the power of Government, and what we ought, consequently, to do.

BANKING.

Coming to the consideration of the banking question, there are one or two general considerations that I have found it useful to examine. One is: Suppose we divest this subject of banking of law; suppose we start at it in a natural way and see what men would do, what they ought to do—and I have found it helpful to go through that process—and then see what Government ought to do in aid of it, and what it can do, usefully and properly, and how it gets its right to legislate about it at all, to interfere in the transactions of mankind.

In the first place, as to the bank note. Why should Government legislate about a bank note at all? Why should we cumber our statute books with the subject in any way whatever? What is a bank note? It is an obligation like a time note, except it is on demand. It does not bear interest, and is generally in small sums, convenient for the use of many people.

Now, what is the reason that Government should interfere or do anything about a bank note that it does not do about any other indebtedness, for it is only an evidence of indebtedness? Is it to protect the holder of the note from loss? Not at all. We have no business to interfere on that account. All we ought to do there is to provide our courts, under which a man can recover, just as he does on any other debt, on an execution. It is not to save A, B, or C, or any gentleman in this room from loss on a bank note that Government interferes. Otherwise it grossly discriminates between different classes of creditors, and if it carried it on far enough it would interfere in all business transactions. I conceive that the way Government gets its right to interfere as to these demand obligations is this: They were found to be a most useful instrument in transferring property and services from man to man. To attain their highest usefulness, however, it was necessary that they should have great rapidity of movement, and in order to attain that rapidity of movement, the receiver of them must be saved the necessity of looking to the credit of the issuing party, whoever he might be.

Therefore Government properly came in and devised a system by which they shall be issued and then certifies that they are issued under that system. So that a man who takes a note, if he knows how good the system is, can know how good the note is, and he does not have to stop to look further. He has to know one large thing, instead of a vast number of smaller things.

Now, that is the same service exactly that the Government performs when it coins pieces of bullion. In the case of silver another service is performed, because with the silver dollars the Government has put a certain degree of promise behind them; but take a piece of gold—and it would be the same way with silver if we had the free coinage of silver with no Government credit behind it—and what the Government does in that instance is simply to take the piece of bullion from the owner of it and put it in a certain form and certify that it is such a quantity and of such quality. The Government does not contribute any capital; it does not put anything into the bullion transaction; it does not con-

fer much benefit upon the owner of the bullion, because he could put the weight and the quality on it if the Government did not do that, but it does confer a very great benefit upon the people who want to use that bullion for the transfer of their property and services, in that it saves them the trouble of assaying and weighing.

The Government does the same thing with a bank note. It does not put any capital into it. It does not give it any credit except that it provides a system and certifies that it is issued under that system. The Government performs a great service in that way, of course, to the people who want to use bank notes, and in both cases it performs a great service to the whole community in that it diminishes the amount of bullion and the number of bank notes necessary to carry on the transactions of the community, because it gives them both greater rapidity of movement and causes less of them to be required for the same volume of transactions.

If that is a true statement of the Government's functions in regard to bank notes, it has always seemed to me we should approach the subject with the fact in view that the duty of Government is not to repress these things, but to go on in the direction of the principle, the philosophy, which has given it its right to interfere at all, and simply provide for the greatest facility of movement, that being dependent on the goodness of the system that it devised, and, having done that, leave the people to take care of themselves.

GOVERNMENT AND BANKS.

Another consideration that is helpful is what Government does for banks. We hear much of the great obligations that banks are under to Government, the great privileges conferred upon banks and bankers by Government. I venture to say that if any man will try to categorically answer to himself what those privileges are, he will find it difficult—very difficult, indeed.

What does Government do when it authorizes a bank to do business—when it gives a bank a charter? It enables a quantity of scattered capital, which would otherwise be quite ineffective, to come together and then helps its business, as it were, by advertising it. It certifies that the bank is organized under a certain system, that there was so much capital invested, that it is under a certain inspection, and all that.

Having done that, whom does it help in the greatest degree? Why, it helps the thousands of people who want to use that thing for convenience. They are the ones who are helped. The people who have put their capital in it are helped somewhat, but they could have used their capital in a thousand different ways. They did not have to put it into that bank, and probably if they had not any banks they could have lent it more profitably to individual persons; but the community would not have been nearly so conveniently served, and that capital would not have been gathered together from its different sources to serve them in that way.

When you come to your great bankers, they do not need any Government certification. The bankers who have enormous amounts of capital themselves, and whose names are known all over the world, do not want any Government charter and Government certification, and they will not have it.

Therefore, in approaching this subject of banking, I think we want to bear always in mind that the benefit we are conferring is not on the stockholders of the banks by devising a good system, but upon the

great bulk of the community that wants to use the system in the transaction of business; and I think if we bear that in mind it helps us very much, because it removes from our minds certain prejudices that are created by a narrow consideration of the subject, by looking at a particular bank which has gone wrong by the misdoings of a particular individual, leaving out of consideration the great mass of banks, which always go right and which are of vast benefit to the community. Of course we want to put such restrictions as we can on sporadic and occasional defect and wrongdoing, but we want to remember that this is a great beneficent instrument of civilization, and we want to do what we can to promote it, not to repress it.

LOANS AGAINST CREDIT.

Another process I find useful is to find how a bank note—or a thing like a bank note—would be used. Suppose there is a man in a country village who has the confidence of his neighbors, and he proposes to go out and buy their butter or cheese, or wheat or wool—whatever it may be; and the community has confidence in him—believes in him. He goes to a farmer who has one of these products on hand and offers to buy it, saying, "I will give you my notes payable in three months with interest, and before those three months have expired I will have sold your products and will be able to take up those notes." The farmer would say, "I shall be very glad to have your note, for I trust you." I am assuming now that this is a man with a perfect credit. But the farmer might say, "Your time notes will be inconvenient for me. I have my laborers to pay and a great many small demands to pay out at the stores, etc., and it will be a great convenience to me if instead of giving me your time notes you will give me a number of your demand obligations in various small sums which I can use to pay my laborers, and they can use them to pay their bills at the store. These demand obligations can go around and settle a number of our obligations among ourselves. It will be a convenience to all of us if you will do that, and we are all willing to trust you. But in order to do that you will have to provide something to redeem these obligations in a shorter time than three months. A portion of them will come back to you, and you will have other bothers about them; therefore we will be willing to take them without interest, to compensate you for the convenience they are to us."

Of course the man would do that. A few months would go by, and the whole transaction would be completed, and the community would have been very considerably served, not only by buying their produce and enabling them to pay each other, but by doing other business, and they would all be settled finally by the original issuer of the notes.

That is the way in which demand obligations would be issued, and so long as everybody knows each other there is no reason why more restriction should be put upon them than on the time note. It is only when we get where people do not know each other that we need conditions, restrictions, in order to enable the notes to perform this very function.

LOANS AGAINST BONDS.

Suppose, however, instead of this farmer saying, "We will take your obligations in that way," he should say, "We want these small notes, but we want security for them; we don't trust you. We want you to go and buy some bonds and put them in the hands of a trustee, and a particular kind of bonds, and then have him certify that your notes are

issued against those bonds, and that he is going to hold them until you redeem the notes." The buyer of the produce would then say, "That is a very different proposition. You are proposing that I should not only deal in produce, but also in bonds. I shall have to go out and buy something that is foreign to my business that I want to transact, something that bears a very low rate of interest, a poor investment for my money. I do not know about that."

But we will say that he finally would do it, and issue the notes, and the transaction would go on just the same as the first transaction I instanced, notes going on and going around and being canceled. But at the end of the time the buyer of the produce would be left with the bonds on his hands, and he would then be sorely tempted to say, "I can not wait until the next year comes around, when these people want to sell their products; I must do something with these bonds and get some more interest on my money in the meantime," and he would be sorely tempted to loan those notes, or use them in ways foreign to the business he was mainly carrying on and subserving, and away they would go.

That is our present system under the deposit of bonds, as against the natural system based on the transaction itself, with all the securities behind it, with all the capital of the bank, and all of the assets which have come to them in the loans which it is proposed in this bill to base your bank-note circulation upon.

As nearly as possible, that would be the natural process if no laws intervened, throwing about it, in addition, such safeguards as carry out the legitimate function of the Government in aiding rapidity of circulation, and as a condition precedent to that, making the things sufficiently secure. That, it is manifest, is done by this system.

[At this point (1 p. m.) the committee took a recess until 2 p. m., when the committee reassembled and Mr. Fairchild continued his statement.]

WHEN GOVERNMENT CREATES VALUE.

Mr. FAIRCHILD. My attention has been called by someone to a careless expression of mine in my remarks before recess, in saying that the Government can not give value to anything. I should have limited that by saying that it can not give a value to anything by calling it a standard or investing it with the legal-tender quality. It does not give value to money by investing it with legal-tender quality or calling it the standard of value. Of course, it can give value to a thing by putting its own credit behind it, as it gives value to the greenbacks. It gives a certain value to silver in the same way. But, after all, that is putting in something of value, which is its own credit. It gives value to certain property around here by erecting the Capitol, and therefore creating a demand for this property. I should confine my statement to saying that the peculiar nature and functions that the standard of value performs and that a legal-tender money performs are such that it has been found as a matter of experience that the mere conferring by Government of those qualities upon either substance does not thereby give any value which could be measured.

THE NATURAL SYSTEM OF ISSUING BANK NOTES.

We are trying to arrive at the natural system of issuing bank notes. No, I do not like to use the word "issuing" on assets, because it is very inaccurate; you issue on assets now. Bonds are an asset like all the assets of the bank. The same liability is behind the bank note now

that would be behind the bank note under this system or any other, because the bonds are part of the assets, and if the bonds were deficient for any reason, then the note under the law to-day, as you know, has a prior lien upon all the resources of the bank. So it is a more accurate expression to say issue notes without a deposit of a portion of their assets with the Government or a trustee as collateral security.

Mr. JOHNSON. Would the term "commercial assets" do?

Mr. FAIRCHILD. Not at all. It is a different process. You take a part of your assets under the present system and put them with a trustee, put them beyond your control, and we now have to designate Government bonds. We might by law designate something else, and that they should be put beyond their control, in the hands of a trustee.

Mr. FOWLER. This was such an important matter, I was just going to say—and I presume it will come out in what you have to say—that it would be well if we would agree on some term. A current credit is what I understand you to mean.

Mr. JOHNSON. You think the term "commercial assets" would not do—is not broad enough?

Mr. FAIRCHILD. Well, the bank would probably own more or less bonds. You would not call those commercial assets, and yet they would be liable for the notes. It is all the resources of the bank which are pledged, without depositing them, or any portion of them, with a trustee. That is the difference between the two systems, and it seemed to the commission that it was following the natural course that such business would take, providing the Government had not concerned itself with it at all, and that we simply ought to try not to interfere with the natural course, except so far as was necessary to promote the highest usefulness of this kind of tool, and a note or money is nothing but a tool that people want to use. That is done by binding together the banks that use notes; and the object of that, let me repeat, is not to save A, B, or C from loss on the notes of a particular bank. That is not the reason. Otherwise you would have to go very much further and protect as to all kinds of things.

But you do it in order to give these things their greatest facility of movement, and we bind the banks together for the same reason that you require the deposit of United States bonds as collateral security for the notes that are now issued. It is exactly the same reason—in order that through the failure of any particular bank and its failure to redeem its notes, discredit shall not be cast on the notes of that bank—that is of very little importance to the community, because they are so small in number—but in order that no man may be obliged to stop and see whether the notes of that bank, or of any other of our banks, or of any other particular bank, are coming into his possession. That is the reason, I apprehend, that the deposit of bonds is required; and in lieu of that, believing we would get a more useful currency, more readily responsive to the needs of the country, we propose to combine the issuing banks, so that they shall be responsible for the notes of all the banks that issue.

SAFETY.

Now, as to the safety of this provision. We provide, you know, that up to 60 per cent of its capital the banks may issue notes without a tax, then up to 80 per cent by a tax of 2 per cent, and then from 80 to 100 per cent by a tax of 6 per cent.

In pursuance of my duty as chairman of the particular committee having that feature in charge I caused a careful investigation to be

made, in order to see what would have been the result had that law been in existence since the beginning of the banking system. We have not the data—in the Comptroller's report or anywhere else, without working it up—which gives us exactly what we want, because all these estimates which have been made by the Comptroller have been based on the actual amount of notes in existence.

Taking all the failed banks since the system has been in existence, we ascertained what would have been the tax on all banks of the country since the beginning of the system, provided they had all issued 80 per cent of their capital in notes, and had kept that amount constantly in existence from the beginning of the system down to the present. Then I took the year 1893 as the worst year in the whole system, to see what would have been the result then; and as to 1893 the figures show that if nothing more is collected—and I am told from the Comptroller's office that quite large sums will still be collected from the banks which failed in 1893—the tax on all banks under the system, in order to make good the losses of 1893, would be about one eighth of 1 per cent upon their circulation; and had this law been in existence from the beginning of the system all the losses since 1863 would have been made good by an average annual assessment of one-fortieth of 1 per cent, which would be something less than 1 per cent since the institution of the national banking system in 1863.

The total cost to the banks would have been less than 1 per cent during the whole period of their existence had all things been otherwise, as they have been.

Mr. NEWLANDS. That assumes a secured currency, and not so large an issue; does it not?

Mr. FAIRCHILD. The figures show, and I say that had the banks issued 80 per cent of their capital all the time since the beginning of the system—assuming that (and I made up a new set of figures to see how it would have worked) it came out with the result that it would have been a tax of about one-fortieth of 1 per cent per annum. So it is manifest that that would not have been a burden upon the issuing banks at all.

TEMPTATION TO FRAUD.

Now, one is obliged to think what additional factors there would be under this system to increase risks, and it seems to me that there is but one. That is, increase of the temptation to fraud. That is an objection that is raised by many gentlemen, and there seems to be something formidable in it at the outset, but I think upon investigation you will find that that disappears; that it becomes a quantity so small that it can be neglected.

There is plenty of temptation to fraud under the system of deposits and all of that, and we have fraud sometimes, but on the whole it is very small. I think we can afford to neglect that question as quite unimportant, because, looking at it in a broad way, when you take a community as a whole, and what it is, and all the business that we are transacting, how almost all of it is done on good faith and how little in all of our transactions there is of fraud and bad faith—much of it there is in the aggregate but so little of it on the whole that it affects business considerations very little. Your banks would be conducted by business men. Now and then an adventurer would get in, but banks have to be instituted in communities where men are known, where the Government is watching them, and men are liable to go to prison, and all sorts of penalties are over them. They have put in a certain amount

of their own money, and there are a great many restrictions of that kind.

So we were driven to the conclusion that if the objection of opening the door to fraud was a serious one, it presupposes such a condition of business demoralization throughout our country that we are going back from our civilization. Under all that we have seen under all of our experience of business, under the experience of the present banking system, we are driven to the mathematical conclusion that the element of loss by fraud would be infinitely small; and I, as a banker, issuing bills, from my consideration of this, would not have the slightest hesitation in entering into this system and incurring whatever risk there might be from that. Of course, to the community that used these things nothing of that would come, the risk would fall upon banks, and the objection is made that banks would not enter into this system because of their fear for liability under it. The argument of the commission is that if banks would investigate the subject they would soon convince themselves that their chance of loss was infinitely small.

SECURITY.

Then, as to the security. We have made a statement as to that in our report. When you consider what the assets of the banks of the country are made up of, what relation they bear to the business interests of the country, you will see that in fact they embrace within themselves almost all the active business—and that is the thing which gives value to everything else, your active business. It gives value to your farms, it gives value to your railroads, it gives value to your real estate in your cities, because it is using them all, and the assets of the banks are composed of the representatives of all of that business. The strain that would be put on those assets under this system would be 10, 12, 15 per cent, something like that—if your note issue was up to the maximum.

Now, to assume a condition of things in this country whereunder the assets of the banks of this country would so shrink as a whole that they would not be sufficient, if you come to investigate it, you will find that you have anticipated a disaster such as has never overtaken any business community in the world, nor anything approaching it; and if it did come, then it would be such a paralysis of things that no kind of security that you could put up as a collateral against those notes would be a security, no municipal bond, no railway bond, no Government bond, because that which gave the value to all those things would have become dead. Therefore it is useless to think of a basis for a bank-note circulation if this kind of thing is not a security. If it is not, then there is no security.

SECURING THE DEPOSITORS.

Mr. JOHNSON. You have been speaking of security of circulating notes; what would you say as to the security for the depositors?

Mr. FAIRCHILD. We considered that in the commission and came to the conclusion that there was no interest considerable enough to be disturbed by that. That it was an extension of the functions of Government beyond where it ought to go; that when a man deposits in the bank he can make his choice about it, to do it or not; that it is a matter of private contract and that there is no use to be served by that

such as is served by making a fluid, active currency, and giving it a very high security; and we were fearful that such a thing would drive so many banks out of the national system, should it be proposed, that it might make very serious difficulty. I myself doubt if it would be such a very serious matter, but we thought that that was something with which it was not necessary to cumber the subject. What we were after was a currency system, and if we improved the banks, gave efficient Government inspection, and all that, that would be going as far as we were called upon to go.

Mr. JOHNSON. You say that, under the present system, if the bank fails the bonds are sufficient to pay the circulating notes, leaving whatever assets there may be to pay the depositors—

Mr. FAIRCHILD. Yes, sir.

Mr. JOHNSON. It is a very frequent source of objection to the scheme proposed, as I have read it in the commission's reports, that there being no bonds to pay the circulating notes, the general assets of the bank would have to be taken for that purpose, leaving a small margin to satisfy the depositors.

Mr. FAIRCHILD. That we thought about and discussed considerably. In that respect there is no great difference under the new system from what exists to-day. In the first place, a part of the assets which would be responsible for the deposits are taken by the banks that wish to issue notes and put into Government bonds.

Suppose a bank has a capital of \$100,000, and has deposits of \$100,000 and no notes issued; it can use its capital and its deposits for the investment in United States bonds and the issuance of notes and cut off the depositors. Under the present system there is a slight advantage to depositors, but it is very slight—very slight indeed. When one comes to analyze the difference between the one and the other, and sees that the assets are really diverted now from the deposits to the notes—that is all that would happen in the other case, and you might say the same bad management would have lost these assets—there is something to be considered, but it is not of any great moment.

The banker may say, "The state bank would have an advantage over me in securing deposits, and the trust company would have an advantage over me in securing deposits, because they would say, 'We do not have notes out; therefore there is not that liability against all assets, and you had better deposit with us.'" Now, when I look over the banks of New York to see where people deposit their money, I find, as a rule, they deposit where the most money is deposited, without reference to the capital and surplus. That is so to-day, in practice and in human nature, and I do not suppose it is going to be changed by this thing. Go to the banks of New York, and it is not the bank with the biggest capital and surplus which has the biggest deposits.

Mr. COX. You do not think that is very wise, do you?

Mr. FAIRCHILD. The point is, Mr. Cox, that banks would fear this system, because it might cost them deposits. I say that common experience shows that that sort of thing does not cost them deposits; that it would not be a matter of serious moment to them. But if, on the other hand, we should begin to make them liable for the deposits, of course you open your door considerably wider for fraud. You create an apprehension on the part of the bank that for a time would keep a great many out of your system, and thus prevent it from getting a fair start. If in time it should be found that such a provision was safe enough, and as a development of this entire insurance system, that could come,

but it is not necessary to our currency system; it is not necessary to cumber ourselves with it now. That was our conclusion.

The CHAIRMAN. Is it not a fact, Mr. Fairchild, that the banks deposit their money where they can get the largest accommodation and where they can get their money the cheapest?

Mr. FAIRCHILD. Do you mean the depositors?

The CHAIRMAN. Yes.

Mr. FAIRCHILD. As a rule; yes, sir.

The CHAIRMAN. It is an almost invariable rule?

Mr. FAIRCHILD. As a rule, yes.

The CHAIRMAN. Is it not a fact that the issuing of the currency enables them to loan their money at a much lower rate where they can keep it in circulation?

Mr. FAIRCHILD. Yes, it must do so. The ability to issue currency up to the needs of the community who use it as a tool must enable the banks of this country, and particularly in the country districts, to loan it at a much easier rate of interest.

The CHAIRMAN. Have you ever investigated the proportions under the old State system and under the old French and German systems?

Mr. FAIRCHILD. I have, to some extent.

The CHAIRMAN. Is it not a fact in almost every State, certainly in proportion to its age and advancement in laws that are called humane laws, that persons who, because of business or situation or want of information or education, have no means of knowing whether a man from whom they accept obligations is solvent, or whether he is using his money wisely, are given the preference over persons who are in a situation to know whether an institution is good or not, or whether a firm is good or not, and that the latter have to come in after the others are paid? Is not that the rule?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. And in allowing depositors to put their money where they wish, we are following the rule that is followed in other transactions?

Mr. FAIRCHILD. That is it.

CURRENCY SECURED BY BONDS.

Mr. HILL. Please explain whether anything more than a mere transition step is intended when you provide for 25 per cent of the currency to be secured?

Mr. FAIRCHILD. That is all that was intended—a transition step. The feeling in the commission was, as explained in our report, that it was well enough to have the country become gradually used to this system, to see how it would work, so they might not be too much affected by alarming statements in regard to it, and we determined upon 25 per cent. Upon looking at the amount of bonds held among the banks at the present time, and the currency to be issued, if this scheme should be carried out in the course of time, in the next few years, we put it down to 25 per cent. At first we put it at 30, but then we reduced it to 25, because we found it would require the banks in certain portions of the country that would need this currency to make more of an investment in bonds than they had now, and more than they would want to make, and than would be desirable. So we put it at the outset at 25 per cent, with a diminution of one-fifth each year until the system should be in full operation.

NO UNDUE EXPANSION OF CURRENCY.

The amount of expansion is sometimes misapprehended as between the banks issuing under the check and deposit system solely, and under a note-issuing system, and as to the advantages to them in different parts of the country. In the commission's report we show that in October, 1897, the country banks issued 72 per cent of all the notes issued in the country. That shows where that kind of tool was called for, where that kind of banking facilities was called for. That was outside of the 27 reserve cities.

Mr. COX. And all the rest you call the country?

Mr. FAIRCHILD. The Comptroller in his report always speaks of those as country banks and the others as reserve banks. By the country banks I mean those not in the twenty-seven reserve cities. They issued 72 per cent of all the notes issued in the country.

The reserve cities—except New York, Chicago, and St. Louis, which were the three central reserve cities—issued more than 18 per cent. So, outside of New York, Chicago, and St. Louis there were 90 per cent of all the bank notes that the country issued. New York issued 8 per cent; Chicago and St. Louis issued one-half of 1 per cent.

Another thing that is mentioned in the report is that the city banks would be afraid to issue currency because of their liability for the country banks. An examination of the system shows how absurd that would be on the part of the city banks, because the country banks hold such an amount of assets that should they issue notes up to 80 per cent of their capital there would have been practically \$2,000,000,000 of reserves against \$321,000,000 of notes.

It would not make any difference to the city banks whether they were guarantors upon those \$321,000,000 of notes, if such a condition of things should happen in this country that those \$1,956,000,000, or practically \$2,000,000,000 of assets should not be good for that \$321,000,000 of notes of the country banks, because there would be such a prostration of business that the city banks would all be bankrupted in another direction. Then there would be no object for their keeping out of the system because of the fear of the country banks.

As to expansion—dangerous expansion—anyone who will take paper and pencil will see that you do not get dangerous expansion under the issuance of bank notes. Whenever expansion takes place it is under the expansion of credit.

The CHAIRMAN. Expansion of loans?

Mr. FAIRCHILD. Yes; that is, of credit.

The CHAIRMAN. This will be read by the common people, I suppose, and I wanted to make it plain. It will be read by those men who have to vote us in and vote us out?

Mr. FAIRCHILD. Yes. Expansion of loans. See what \$100,000 capital in a bank under our law, which is required to keep a 15 per cent reserve, permitted to deposit three-fifths of that in the city, that city not being New York, Chicago, or St. Louis, permitted to deposit one-half of its deposits in either of those three cities—see what \$100,000 of capital in that bank will do in the way of expansion, without the issuance of a note—of a dollar. Suppose the check and deposit system to be used entirely, you will find that the bank with \$100,000 and never a dollar of deposits except its own loans put to the credit of those to whom it loaned, can loan \$666,666.66. Nothing has ever entered into it but the original \$100,000.

Mr. JOHNSON. Under what system?

Mr. FAIRCHILD. Under any system.

Mr. FOWLER. Without notes and without deposits?

Mr. FAIRCHILD. Yes; except the capital of the bank.

You loan \$100,000 of capital, and it is immediately deposited with the man to whom you loan it, and you loan \$85,000, keeping 15 per cent, and you go on that way, and you will find that \$100,000 will have loaned, by that bank direct, \$666,666.66, and it will keep 15 per cent all the while. Then, if that bank, as it may under the law, sends three-fifths of its reserve to Omaha or St. Paul, or whatever city you may select as one of the given central cities, that affords a basis for \$240,000 of loans by that bank, they having to keep 25 per cent; and it may send half to New York, or Chicago, or St. Louis, and that affords a basis for \$120,000, and altogether that original capital affords a basis for \$1,026,666.66, and never a dollar put in but the original capital, and every bank keeping its original reserve.

Mr. MITCHELL. Is that on \$100,000?

Mr. FAIRCHILD. Yes, sir.

Mr. JOHNSON. You are illustrating the dangerous character of credits outside of notes?

Mr. FAIRCHILD. I am simply showing that we need not be afraid of issuing 80 per cent of the capital in bank notes; that whenever we have had a financial trouble the expansion has not come in that way. That is only one form that it appears in. The expansion has been and will be many times greater in other directions. Therefore we need not have the fear that we are going to have undue expansion, and get into difficulties in that direction.

The CHAIRMAN. What connection has this problem with your statement?

Mr. FAIRCHILD. I am showing that if a bank will issue \$80,000 of notes, keeping a 10 per cent reserve against them, and use the check and deposit system, to the uttermost, you will find you have only increased its possibilities of expansion 3 per cent, by authorizing it to issue 80 per cent of its capital in notes. I am calling your attention to that in order to dissipate the notion that we are liable to run into a dangerous expansion by allowing an 80 per cent issue of notes.

Mr. MITCHELL. In other words, your illustration would be this: As \$100,000 of capital can be put into circulation, so you will practically get \$1,000,000 outstanding; and, as under the operation of this bill you would only issue 80 per cent, harm and danger from loaning over and over again is ten times as great as that of issuing notes. Is that correct?

Mr. FAIRCHILD. That is correct.

Mr. HILL. Is it any less under the present system?

Mr. FAIRCHILD. The same under the present system.

INSURING DEPOSITORS.

Mr. FOWLER. Returning to the question of insurance to depositors, have you ever obtained from any department of the Government figures showing what it would have cost to have insured all the notes on deposits in the national system since it was established in 1863?

Mr. FAIRCHILD. No; I have not got that accurately.

Mr. FOWLER. Well, as a matter of fact, taking those banks that have closed their accounts, the cost would have been one-twelfth of 1 per cent per year.

Mr. FAIRCHILD. I know it would be very small.

Mr. FOWLER. I agree with you that the people deposit their money where their own convenience suggests, and that it is not strength, but the mere thought in their minds that the bank where they deposit is safe, and that after their mind reaches the point where it is safe they do not inquire whether it could be any safer. Is not that true, Mr. Fairchild?

Mr. FAIRCHILD. That is true.

Mr. FOWLER. Now, is it not true that the average depositor knows absolutely nothing about the soundness or unsoundness of any bank in any community?

Mr. FAIRCHILD. Well, I suppose that is true.

Mr. FOWLER. The average depositor knows absolutely nothing about whether the bank is being honestly managed or not. That is only known to a few men in the bank unless it becomes notoriously bad. Is not that true?

Mr. FAIRCHILD. I should think it is true, Mr. Fowler.

Mr. FOWLER. Now, inasmuch as it is true that for the period of thirty-five years there would have been no greater charge on the banks of the United States than one-twelfth of 1 per cent, would you not say, inasmuch as there is absolute safety against loss by depositors and you could stop any fear on the part of depositors that a large number of bank failures could be avoided by this method?

Mr. FAIRCHILD. In the absence of panic.

Mr. FOWLER. Do you not believe that it would be so if depositors were assured that there could be no panic?

Mr. FAIRCHILD. Do you mean no panic as to that particular bank—no run on it?

Mr. FOWLER. No depositors' panic.

Mr. FAIRCHILD. I should think it would be true.

Mr. FOWLER. Then, if this slight cost of one-twelfth of 1 per cent would insure depositors, do you not think that that would be a proper thing to incorporate in this bill, providing that it were put off, we will say, to 1903 or 1905?

Mr. FAIRCHILD. I do not think that it would be a dangerous thing to try, but I do think that a vast number of banks would not take that view of it, and therefore you would not get your degree of insurance that you looked for.

Mr. FOWLER. The proposition would be, of course, to make this insurance permissive, the same as life insurance is permissive to anyone in this audience. If a man wants to insure his life, he can do it. So a bank that wanted to insure its depositors could do so, and if a man lived in a town where the bank had paid the money to insure depositors he could deposit in that bank. The idea is not to make it obligatory, but to have a system based on data drawn from the experience of our national system so that any bank could enter the system if it saw fit to do so. Do you not think it would immensely strengthen the banking interests of this country to have such permission, and do you not think if it were in force and the banks were all in it that it would eliminate a large number—in fact practically all—bank failures, except in those cases where the banks are literally robbed by the managers?

Mr. BUSH (of the commission): Would not your insurance have to be general in order to make the rate so low?

Mr. FOWLER. Yes, sir.

Mr. BUSH. Therefore it would have to be compulsory?

Mr. FAIRCHILD. Of course, if the depositors in a bank were secured

it would create confidence in that bank and make people less apprehensive when the bank made bad loans. Does anything prevent them from insuring now?

Mr. FOWLER. No, I think not.

Mr. FAIRCHILD. I should not think we would need a law about it. If the banks of any town or any community want to mutually take care of each other by an insurance, I suppose there is nothing to prevent it.

Mr. JOHNSON. A safety fund on deposits was tried in New York in early times, and it was a failure so far as the depositors were concerned. It may be that so far as the notes were concerned it was found to be a success.

Mr. FAIRCHILD. It was a little safety fund, and it was not large enough to cover both notes and deposits. That was the fact.

Mr. JOHNSON. I do not know the reason, but that was the fact.

Mr. FOWLER. The fact is that when the law was drawn it was drawn to protect the noteholder, but when the court construed it it extended it by its construction to the depositor.

Mr. FAIRCHILD. That was the trouble.

Mr. JOHNSON. Is there not danger that, in order to secure both the depositor and the noteholder through a safety fund, the tax might be so large the banks would not be willing to go into it?

Mr. FAIRCHILD. That is what I spoke of. But as I understand Mr. Fowler's question, no bank is obliged to make this insurance, and it is only the banks that agree to go into it together.

Mr. JOHNSON. Of course, the provision would be worthless unless it is one that the banks would probably avail themselves of.

Mr. FAIRCHILD. Of course.

Mr. FOWLER. Let me ask you a practical question. Do you or do you not think that if the tax was one-eighth of 1 per cent to insure depositors, the banks of the United States would go into it?

Mr. FAIRCHILD. I would not like to answer as to that. Do you mean if it was limited to one-eighth of 1 per cent? No more than that?

Mr. FOWLER. If the average cost amounted to that; the banks could figure that out and see what it would cost them.

Mr. FAIRCHILD. Would they be liable for more than one-eighth?

Mr. FOWLER. No, sir; it would be a limit to the tax; it would not amount to more than one-eighth per annum.

Mr. FAIRCHILD. I do not know how it would figure out at one-eighth of 1 per cent. That would be quite a sum of money for the larger banks. I do not know but that the banks with the large assets and money would stay out of that.

The CHAIRMAN. That is not in this bill.

PRACTICAL RESULTS OF THE COMMISSION BILL.

Mr. COX. I want to go back with you and get some of the underlying principles of this bill. I do not care so much about the details or the workings of it at present. As I understand, this bill involves these two ideas distinctly and clearly: First, that it establishes the single gold standard as far as it can—

Mr. FAIRCHILD. Yes.

Mr. COX. Secondly, that it takes out of circulation all kinds of paper money except bank notes?

Mr. FAIRCHILD. Yes, sir; eventually.

Mr. COX. That is the question that arose a while ago as to the silver certificates—

Mr. FAIRCHILD. That is the intention, to take out all the paper except bank notes.

Mr. COX. The practical workings of this bill, and its complete workings, if carried into execution, would establish as far as it can the gold standard and but one character of paper circulation, and that would be national bank notes?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Now, it would not disturb the legal-tender qualities of the silver dollar—it expressly reserves that on the face of the bill; but do you understand that under the operation of this bill, when the legal standard is fixed as the gold standard, the holder of the silver dollars has a right to demand of the Government exchange or redemption of those silver dollars in gold?

Mr. FAIRCHILD. Let me see—what is our language upon that?

Mr. COX. Your word is “exchange.”

Mr. FAIRCHILD. Exchange. Section 7 says:

It will be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for.

Mr. COX. Now, the bill says, “Pay out gold coin for gold certificates.” That is what it does now. It pays out gold coin in redemption of the United States notes or Treasury notes of 1890. That you may get my question clearly, I will read:

Pay out gold coin for gold certificates; pay out gold coin in redemption of United States notes or Treasury notes of 1890; pay out silver dollars for silver certificates of any denomination.

Mr. FAIRCHILD. That is correct.

Mr. COX. “Issue silver certificates of denominations of one dollar, two dollars, and five dollars, in exchange for silver dollars and silver certificates, in denominations above five dollars; pay out gold coin in exchange for silver dollars.”

Mr. FAIRCHILD. That is correct.

Mr. COX. Now, I want you to give me distinctly and plainly the process by which that would be worked. If a man had, say \$1,000 in silver—the amount cuts no figure—and he wanted to exchange that for gold, how would he do it? You provide that the Government, in this bureau, shall pay out the gold for silver dollars.

Mr. FAIRCHILD. That he would present his silver dollars to the Treasury just as he presents now his—

Mr. COX. Treasury notes?

Mr. FAIRCHILD. Well, yes; just as he presents anything else, or as he presents his quarters and halves and dimes. When he wants some other kind of money he presents those to the United States, and he could get such other kind of money as he wanted at the Treasury.

The CHAIRMAN. Do you mean the Treasury would give him gold?

Mr. FAIRCHILD. Yes.

The CHAIRMAN. Just as it does now for legal-tender notes?

Mr. FAIRCHILD. Just as it does for halves and quarters and dimes.

The CHAIRMAN. Subsidiary coin?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Let us see. He goes to the Treasury of the United States with a thousand silver dollars, and under the law those dollars and the reserve in this bill are legal-tender dollars, and demands of the Treasury of the United States that it exchange them so as to give him gold for his thousand silver dollars; and this bill makes it obligatory upon the Treasury to give him one thousand gold dollars. Is that correct?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Where is the Treasury to get that thousand dollars of gold?

Mr. FAIRCHILD. It gets that \$1,000 of gold from the revenues or from the issuance of bonds, if need be.

Mr. COX. Then his mode of getting this \$1,000 of gold is one of two ways, from your answer. He either collects it from taxation—I use that word in its general sense—or he issues bonds of the Government and borrows it. Now, does any law provide that the gold alone shall be paid for taxes of the Government?

Mr. FAIRCHILD. No.

Mr. COX. Let us follow it a step farther. We will say the citizens pay the taxes in silver. That goes into the Treasury, and then the man that holds silver dollars demands gold. Is not the Treasury forced to issue bonds to get the gold?

Mr. FAIRCHILD. Not necessarily. Under this proposed law you would find in practice that from 95 to 99 per cent of the revenues of the Government would be in gold.

Mr. COX. That is a matter of practice? That is your judgment as to results?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. But I am talking about a question of law under this bill.

Mr. FAIRCHILD. As a question of law they must get the gold, but as a question of practice you will find that practically all the revenues of the Government would be in gold.

The CHAIRMAN. Is that prophecy, or have you data for that?

Mr. FAIRCHILD. I have my own experience in the Treasury to tell how it works.

Mr. COX. That is a matter of prophecy and not of law.

Mr. FAIRCHILD. Look over the money that would be in the country in the operations of business, and you can not draw any other deduction from it than that it would be impossible for any large amount of silver to come into the revenues of the Government. Under this system that silver would remain in people's pockets, doing the ordinary work of money, and the only time it would come back on the Government would be when there was such a political condition of things that an apprehension was raised in the public mind that some day you were not going to exchange that silver for the gold whenever the holders wanted gold. Then the Treasury would find its figures reversed, and it would have large revenues in silver and very small revenues in gold.

Mr. COX. Under this system we have bank notes in circulation, and they are out as currency. I take \$1,000 of bank notes, we will say, and I go to the bank that issued them and I demand that they be redeemed, because this bill puts the redemption on the banks, as I understand it. Now, suppose the bank offers to redeem in silver dollars. Is not that legitimate under this bill?

Mr. FAIRCHILD. I forget what is the exact language in the bill as proposed.

Mr. BUSH. "In lawful money."

Mr. COX. I know that is the word used, as suggested by my friend from Alabama. He assumes that silver is lawful money.

Mr. FAIRCHILD. We might as well be exact on that. We have the bill here. Let us look at it and not trust to our recollection.

[At this point Mr. Fairchild suspended his statement to allow Mr. Bush to be heard. Mr. Bush's remarks follow Mr. Fairchild's statement completed.]

SECOND DAY, JANUARY 13, 1896.

[On this day Mr. Fairchild was preceded by Mr. Bush, whose statement will be found elsewhere.]

STATEMENT OF HON. CHARLES S. FAIRCHILD—Continued.

Mr. COX. Let us try to get back where we broke off yesterday. We had discussed the question of the redemption in gold of bank paper and silver dollars, and so forth, and I think the last question I asked you was, how would the United States get the gold to effect that redemption?

Mr. FAIRCHILD. I think so.

Mr. COX. And you answered me that it would get it through the collection of its revenue.

Mr. FAIRCHILD. Or on bond issues.

Mr. COX. So that branch of the subject we can dispose of at once, that if the revenues did not bring in a sufficient amount of gold to redeem this paper as it was presented and this silver as it was presented, it would result in an issue of other bonds, necessarily?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. So that the issuing of new bonds would depend upon the Government getting gold through its revenue. If it failed to get it, it would have to issue bonds.

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Let us follow on a step farther. The silver in circulation, we will assume, amounts to \$60,000,000; that is, the actual silver, without regard to the certificates, for I treat the certificate more in the nature of a warehouse receipt than in the nature of money, for it only calls for their payment in silver dollars.

Mr. FAIRCHILD. I think, technically, that is correct. Practically, in the way the silver certificates are used, I do not think it is correct, because our people have formed the habit of using them indiscriminately as money. As to the gold certificates which are held by the banks as a convenience to themselves they are not only technically but practically a warehouse receipt. The silver certificate, I think, shows in our experience that it goes as money, and that is the reason that in this bill we continue the silver certificate. That was one of the reasons. Instead of treating it as we did the gold certificate, we provided that the gold certificate shall no longer be issued, because we said that the Government should not be merely a warehouseman, and that people wanted a smaller kind of money; that the silver certificate was a convenient form for them for carrying in their pockets, and that probably a far larger amount of silver would be actually in circulation and in use if we retained the silver-certificate system than if we abolished it, and the people had nothing below \$10 except the actual coin dollars. Therefore we looked upon it practically as rather diverging from the gold certificate. Technically, of course, they are exactly alike.

BANK REDEMPTIONS IN GOLD OR SILVER.

Mr. COX. Yes. Now, we followed up the redemption into the Treasury of the United States, or, as the word was used by a distinguished ex-Senator, silver dollars exchangeable for gold, and so forth. But we will say this bank system is put into operation, and we are trying to work it out practically. I go to the bank with a number of the notes in my possession—the amount cuts no figure—and I demand of the bank

the redemption of the notes. Under your system, you provide what coin they shall be redeemed in. It would redeem them in any lawful money. By lawful money you would mean any money that has the quality of legal tender?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Now then, the bank would redeem its notes in silver dollars?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Or it would be compelled to redeem in gold?

Mr. FAIRCHILD. After our scheme was worked out.

Mr. COX. Now, suppose the bank refuses to redeem its notes in gold; what kind of a remedy have you against them?

Mr. FAIRCHILD. None, I think.

Mr. COX. But suppose the bank elects to redeem in silver and the holder of the note demands gold, what kind of a remedy has he? He wants to use gold, but the bank says "No, I won't pay you gold; I will pay you silver." Now, is there any process under this bill by which he can compel them to pay in gold?

Mr. FAIRCHILD. No.

Mr. COX. But he can take silver dollars, if he concludes to take them, to the United States Treasury and exchange them for gold?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Now, let us come back to another proposition—

Mr. FAIRCHILD. Mr. Cox, I do not want to interrupt your questions, but if you will permit me, I can relate some of the processes that the commission went through on the question of bank redemptions. The point was raised among us that the banks ought to be compelled to assist the Government in its gold business—that they ought to be compelled to redeem in gold. Some of us objected to that on this ground, that thereby we would immediately put a greater gold burden upon the Treasury, because we would discriminate against some portion of the Government money by that law. Therefore a bank, in providing its reserves, would provide them all in gold, and it would take all its greenbacks and its silver certificates over and above those it needed for small change and its silver dollars and present them for gold in order to replenish itself. Therefore there would be a greater strain upon the Government to provide the gold than there would be if we permitted the banks to use any kind of Government legal tender. We felt that those, then, would remain in the banks to a far larger extent and not be forced back upon the Treasury, and those considerations were what induced us to make no discriminations among the Government moneys. This was not on account of the banks, because it made no difference to them. They are perfectly willing to hold all their reserves in gold, but it was because it did make, in our judgment, a great difference to the Treasury of the United States; and upon those considerations the views of some of the gentlemen were modified, and then there was added, as you will see in this bill, a provision that one-quarter of the reserves were to be held in coin. We did not say whether they should be held in gold or silver, but in coin.

Gentlemen felt that it was better for the country to see in these banks, pending the retirement of the greenbacks, a considerable amount of coin. They already hold \$160,000,000 of gold or something of that kind, so that made no practical difference. But the reason we did not say that was in order to save the Treasury from an additional strain, and I was quite earnest about it because I felt that would be the result if we said the banks should redeem in nothing but gold. I thought

that would put a greater strain on the Treasury. That was a matter of judgment. We thought no bank would object to holding all its reserves in gold.

Mr. COX. Then, when it is in operation, we have but two kinds of money?

Mr. FAIRCHILD. That is all.

Mr. COX. The practical effect is this, that you throw upon the banks the discrimination and right to redeem in silver, and you take it away from the Government?

Mr. FAIRCHILD. Yes.

Mr. COX. So you put the banks in a position to redeem in either gold or silver, and you make it imperative upon the Government that it shall redeem in gold at the demand of the holder of the legal tender, or whatever it may be?

Mr. FAIRCHILD. That is perfectly true.

Mr. COX. Now, if that is true, and the banks can discriminate, would not that have the effect, when the bank offered to pay in silver, and not in gold, and the holder wanted the gold, of hurrying the silver dollars that he got from the bank into the Treasury to obtain the gold?

Mr. FAIRCHILD. I don't think that would make any difference.

Mr. COX. Wouldn't it amount to this, in effect, Mr. Fairchild, that any man that had the silver dollar, if he failed to get it from the bank, could at once go to the Treasury of the United States and get gold?

Mr. FAIRCHILD. Yes; but I have said that I did not think it would make any difference, because if the bank was in a position where it felt that it had too large a proportion of silver in its cash it would make no difference to it whether it paid it to a customer, or paid it to the Treasury of the United States for redemption, or paid it for Government dues; so that the net result to the Treasury is exactly the same. But if the bank felt that it could not pay this silver to its customer if it wanted to and must take it, then in order to guard against contingencies it would always present it to the Treasury in order to have enough gold on hand, and there would result, in my opinion, a larger strain on the Treasury, because the bank at the outset, whether it wanted the gold or not, would secure it in order to provide against contingencies. We felt that it was safer that there should be absolute assurance on that subject.

Mr. COX. It is very distinct and plain how you came to your conclusion about that. We have the bank notes. They are instruments, direct or indirect, that can demand redemption in gold. We have these. We have the silver dollars in circulation that can demand the same thing. Now, there being but two kinds of money, the bank notes and gold—for I treat the silver in this connection as the equivalent to gold—the Treasury can be raided by the use of silver dollars and these bank notes?

Mr. FAIRCHILD. Well, the bank notes indirectly. The Government does not have to supply the gold for bank notes.

Mr. COX. But the banks would eventually have to supply it and would get it from the Government.

Mr. FAIRCHILD. If there is no Government obligation outstanding except silver, there will be no place for the bank to get gold from. There will be no opportunity to get gold from the Treasury except through silver. The greenbacks will not be in existence.

Mr. COX. We are assuming they are out of existence.

Mr. FAIRCHILD. Yes. Therefore, if the silver does not suffice for it the banks have got to get it. Now, then, as to the question of the

silver sufficing or not. I suppose you would like me to give you as much as I can of the processes we went through to arrive at these conclusions?

Mr. Cox. I would be very glad to hear it.

INCREASED USE OF SILVER DOLLARS.

Mr. FAIRCHILD. We concluded that we would not provide that these silver dollars should be redeemed, in the sense that the greenbacks would be redeemed, but that they should simply be exchanged and paid over, as the greenbacks now are, and go out again. But we also provided that there should be no money of denominations less than \$10 in the country except in silver. We found that if we retired all other forms of money below \$10, except the silver, that left all the silver dollars called for for the smaller kinds of currency except about \$50,000,000 at the present time, and we felt that that \$150,000,000, or whatever it is, would be a thing that would be scattered all over in the pockets of the people, and that it would be accumulated nowhere in such a form that it could be used in large sums to be presented to the Treasury; that every bank would be compelled by the necessities of its business to keep a very considerable amount of this silver or the silver certificates in its vaults in order to accommodate its customers when they wanted the smaller forms of money, and the first thing a bank thinks of is keeping the kind of thing in its vaults that is called for by its customers.

Mr. Cox. That is where it makes its money.

Mr. FAIRCHILD. That is where it makes its money. Therefore they would be compelled to keep the silver, and there would be a large demand upon the banks for this kind of money in order to accommodate their customers who wanted to make up their pay rolls, and who wanted small sums of money; that it would be in such a condition that it would be physically impossible to use it as the greenbacks are now used, in large denominations, to raid the Treasury. We put an absolute physical barrier between the Treasury and it, and yet we made every man sure that he never could get caught with them by providing that if the need arose the Treasury was willing to take care of it, just as they take care of dimes and quarters and half-dollars at the present time. So no man, if he thought he was getting his till overburdened with silver dollars, would have any trouble in going to the Government and getting that money exchanged. We felt we wanted to throw that assurance around the silver dollar in order that it might not accumulate in the Treasury, in order that everybody might hold it freely and willingly. That was the process we went through, and we felt that the country would need and did need at the present time almost all of this money in that form; that it would not be long before it would need the whole of it, and that you might have to provide before long for some more of that kind of money in the country.

Mr. Cox. That is all right; that is the theory and the reason upon which you came to your conclusions. I am not speaking about that particularly, although I am very much interested in what you have said, but I am trying to get to the effect of this bill.

Mr. FAIRCHILD. I am trying to give you that. We considered the effect, and we thought that would be the effect; that instead, as at the present time, of the silver at certain times of the year being thrown into the Government in large sums in its revenue, it would not be

thrown in its revenues at all, because it would have to remain out doing this small-change work.

Mr. COX. But anyhow, under this law, it is possible and would be legal to force upon the Treasury of the United States the redemption of all this money, silver and bank notes—bank notes indirectly?

Mr. FAIRCHILD. Not bank notes.

Mr. COX. I said indirectly.

Mr. FAIRCHILD. To the extent of the silver, certainly; and you might add to that, if you chose, the half dollars, the quarters, the dimes, nickels, and cents. If anybody wants to redeem those, if there is a distrust against them, he can present them to the United States Treasury, and the United States Treasury will redeem them and hold them there. But then what is this country going to do? It will not do that.

Mr. COX. They can do it or not. That is a question.

Mr. FAIRCHILD. Of course they will not do it.

Mr. COX. I want to see what they can do under this law. What they are going to do is another question entirely. The Government, then, is under obligation to redeem any of this money of the banks, either directly or indirectly, silver dollars and the subsidiary coin, all in gold upon the application of the holder?

Mr. FAIRCHILD. The Government is obliged to redeem all of its own issues of silver in gold. Then, up to the extent that that would be an indirect redemption of bank notes, it would redeem the bank notes. But if all the silver was redeemed by the Government, after this law had gone into complete operation, there would still be a large amount of bank notes that the banks would have to provide gold for elsewhere?

Mr. COX. Yes. Now, we are up to the second proposition. If the result is, as you have stated, that the silver can not be used by the banks in procuring gold, then the banks would have to redeem in gold?

Mr. FAIRCHILD. Yes.

Mr. COX. That would be the only thing they could redeem in. Now, there are the debts of the Government, there are the private debts we have spoken about, there is this redemption process we have been talking about, and let me ask you this direct question: If such a state of affairs should exist under this proposed bill, would it not have the tendency to enhance the purchasing power of gold?

Mr. FAIRCHILD. I think not.

Mr. COX. Do you not think that with that raid upon the gold the values of gold products would remain practically as they are?

Mr. FAIRCHILD. Substantially as they are. They would not be affected appreciably at all.

Mr. COX. If the prices of the products remain higher here than they are in other parts of the world, how would it be possible ever to obtain any gold from other parts of the world when the products are higher here than where you could sell them?

Mr. FAIRCHILD. It would not be possible.

Mr. COX. So, if it maintains the price here, even equal to the price in other countries, you can not get any gold from foreign countries with your products?

Mr. FAIRCHILD. Oh, yes; you can get it with your securities.

Mr. COX. That is borrowing?

Mr. FAIRCHILD. You could borrow. I have gotten gold from abroad without any products.

Mr. COX. You borrowed that?

Mr. FAIRCHILD. I got that just as you would borrow any other money.

Mr. COX. I am not talking about that. I do not much like the borrowing system. So that proposition is settled. I will leave out the borrowing part. But it is unreasonable, is it not, to suppose that products would be carried from this country and sold abroad for less than what the products would bring in this country?

Mr. FAIRCHILD. That is unnatural; yes.

Mr. COX. So, if that state of facts exists, if our products can be sold cheaper in other countries, we have no means of getting gold?

Mr. FAIRCHILD. That is the reason we always sell them—because we can sell them cheaper than somebody else can furnish them.

GOVERNMENT INTERFERENCE DEPRECATED.

Mr. COX. In your opening statement you announced a proposition to which I readily agree, that a bank note is nothing but the note of somebody issued under authority and that you did not think the Government had much to do with that transaction. That was your statement, was it not?

Mr. FAIRCHILD. Yes, sir. Stopping there, I thought it was none of the business of the Government to interfere when it came there.

Mr. COX. That is what I thought, exactly—let it keep its hands off. Now, you being an experienced man in finance, is not the community itself the best judge of what currency it needs and what currency the community can handle?

Mr. FAIRCHILD. Undoubtedly.

Mr. COX. Then would you not be in favor of a law that would repeal this tax and prohibit the local currency?

Mr. FAIRCHILD. My individual opinion on that subject is now and always has been that the United States should provide as perfect a banking system as it can; that it should take its hands off and let the system survive by its own excellence. That has always been my judgment. We did not feel it necessary to raise the mooted and disputed question of the 10 per cent tax. The question of that prohibitory tax was not gone into, because it would have led to many controversies and difficulties with people who had their fears based on former experiences, and all that, and we were trying to provide something which we were satisfied would draw into it the great bulk of the State banks in the country, and would accomplish in the end what we were trying to do. My own feeling has always been, as you stated, that the Government was interfering to an unnecessary degree with private contracts at the present time, and I feel that if it says it is not able to do anything in this regard, then it should take its hands off and let other people try it. But even if it did, the laws and constitutions of many of our States are such that you can not get any local circulation under them. Texas, I believe, absolutely prohibits a thing of that kind. Therefore, in order to make anything that is complete in the attitude of our States toward it now, it is evident that it is not only better to have a national system, but it is absolutely necessary. To supply Texas, for instance, Arkansas, and quite a number of those States, it is absolutely necessary to have a national system, or else they would have to reverse their whole action, and that would be a long process.

While I felt the theory was correct, I did not feel that the practice was going to be so immediately beneficial, even if those notes were perfectly good notes. I am stating this, not as an argument, but to show the processes we went through in arriving at our conclusions. There-

fore, we felt that it was a matter that was not of present practical importance in large parts of the country.

Mr. COX. That is all I care about that point.

BANK CAPITAL INVESTED IN REAL ESTATE.

Now, let me direct your mind to another provision in this bill. Where the bank undertakes to get out circulation its capital is paid up and unimpaired, and you make an exception of the bank that has its capital invested in real estate, or any portion of it. It may have a capital, say, of \$100,000, and it may have \$25,000 in real estate. That is cut out of the estimate of circulation. Now, in the South a great bulk of the property is in real estate.

Mr. FAIRCHILD. Bank property?

Mr. COX. No; I mean the property of individuals; and there is quite a difference in the way we carry our notes there. Nearly all the banks' notes are notes secured by personal security, not bonds, stocks, or anything of that kind. The value of the security depends upon the real estate that the banks own, as a rule. Now, then, if you put that provision in the bill, in my country, if the banks, in the collection of debts, should become the owners of real estate, they could get no circulation upon that capital. I wanted to call your attention to that part of your bill.

Mr. FAIRCHILD. I understand that, and I very much sympathize with and appreciate the difficulty that your country is in under that provision. But after all, I think, in our experience of all business enterprises, we would feel that it was not safe, that it was not wise, to base a thing that wanted such rapidity in movement and certainty in redemption, and all of that, as a bank-note circulation requires, upon a thing that was a permanent investment of that sort. Of course there are cases where this provision would work individual hardships, but in the main I feel, and the commission felt, that the country would be better served with these tools—and, mind you, we are simply providing tools—would be better served in all parts of the country, in the South and everywhere else, if we threw that kind of restriction about it.

There is one thing in this bill, however, that I think, in looking it over, might possibly be prudently and wisely modified, and I think that the change I suggest was really what was in our minds. It is in reference to capital and surplus. If a bank had a surplus—I think that idea was a perfectly proper modification—we would not make it so a bank might not have a portion of its surplus invested in real estate, and not charge all its real estate up against its capital.

Mr. COX. I was going to call your attention to that point.

Mr. FAIRCHILD. Yes; my attention was called to that by a letter that I received yesterday, and there are quite a number of banks with a very large surplus, that I have in mind now, that own their buildings. These buildings are often as valuable or almost as valuable as their capital. Take the Chemical National Bank of New York, for instance, with a capital of \$300,000, and I have no doubt it has \$300,000 worth of real estate and many millions of dollars of surplus. On the other hand, this consideration has occurred to me: Why is it not better to put in some provision enabling the banks to convert their surplus into capital, instead of having a very large surplus and a small capital? Now, if there is an inducement offered to them to convert their surplus into capital in order to get over this difficulty, perhaps it is fully as

wholesome a condition of things as otherwise. You get a larger responsibility, and that is a matter of detail that we would not be at all tenacious about.

Mr. COX. The suggestion you have made is a very serious one. I would like to get something to relieve the situation in that respect, if I can. For instance, it often happens in the banks in the South that a loan, say a very considerable loan, is made and the personal security is based on real estate. We have no bonds or stocks, you see, as they have in other parts of the country. The bank has to step in and get that property to save its debt. Now, do I understand you to say that where that condition exists—that surplus is not real estate—circulation can not be issued upon that regardless of what it consists of?

Mr. FAIRCHILD. It could not, as this bill is now drawn. But that was the reason I made the suggestion I did. I say my attention was called to that—that we had made that provision perhaps too stringent.

Mr. COX. It is almost destruction to our country if that provision remains in the bill.

Mr. FAIRCHILD. We might require that their capital should be absolutely good, independent of any real estate, and I think the gentleman who originally presented this consideration to the commission had that in his mind.

TAX ON CIRCULATION.

Mr. COX. I want to call your attention to this: We have all heard of this elasticity of the currency, and so forth, and so on. Now, does your bill provide that when a bank takes out a circulation of 60 per cent of its capital stock, there is no tax attached to that?

Mr. FAIRCHILD. That is correct.

Mr. COX. If it takes out 60 to 80 per cent of its capital the tax is 2 per cent, and when it passes 80 per cent 6 per cent attaches?

Mr. FAIRCHILD. Yes.

Mr. COX. Is not this bill so framed that it will work in this way: Whenever the stringency comes, and the demand for the money is great, you want to increase your circulation. Now, when you go to take out between the 60 and 80 per cent, you have got to pay 2 per cent, and when you pass 80 per cent you have to pay 6 per cent. Will not the banker, to protect himself, add that additional cost to the customer that wants the money?

Mr. FAIRCHILD. He may or he may not. I do not think that would always follow. The object of this provision is this: We provide brakes that will prevent the banks from issuing up to the uttermost, in order that, when a time of great demand comes, there may be a margin for issues then. In order that there may be something within perfect limits of safety that will be ready to meet an extraordinary demand, we put a brake upon it, so that banks may have an inducement to keep themselves in a condition to meet times of extraordinary demand in that respect.

Mr. COX. While it is true that is a brake upon the bank for the purpose of restricting it in taking out too much circulation, yet the bank itself does take it out in cases of emergency to accommodate its customers. That is the object?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. But the point I make is: in stringent times, when the money is so much needed, it will result in an increased rate of interest, I will call it, or an increased rate of discount, for those terms are immaterial—

Mr. FAIRCHILD. The rate of interest would be increased already. That would take place independent of this problem, and in a greater degree if this provision was not there to take care of it.

The CHAIRMAN. Let me ask a question antecedent to that. Is it not a fact that money in the banks—especially in the country—may be circulated up to par at some seasons of the year, and that they may not have out more than 40 or 50 per cent at other seasons? That is to say, the average circulation of a bank may be 50, 60, or 70 per cent, and yet at a great many times of the year it may be fully a hundred per cent, if they have the privilege of issuing it?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. I do not take much stock in this idea about a country not needing money at one season of the year. We need it all the time in my country. I think we have got out of that question all that we can. It is in the power of the bank under that law, if it takes out that additional circulation in a time of stringency and the time of great demand for a circulation, to increase the amount of its charges for its discounts?

Mr. FAIRCHILD. Yes, sir; in times of great demand it will always be increased.

Mr. COX. So under this bill, when times are hard and money is scarce, you propose to confer upon the banks the power to put the burden upon the customer and make the customer of the bank pay more for his money. Would that bring relief to anybody?

Mr. FAIRCHILD. They have that already. That is a condition in the nature of things. You can not get away from that. No; that is not the object of the law. The object of the law is to have the banks in a condition to modify the very thing you are speaking of, as much as possible.

THE GOLD STANDARD.

Mr. JOHNSON. Mr. Fairchild, yesterday afternoon you said, in response to a question of Mr. Cox, that the effect of this bill would be to establish the gold standard. Did you mean to establish the gold standard, or simply to preserve the gold standard?

Mr. FAIRCHILD. I meant to preserve it.

Mr. JOHNSON. You recognize, as a matter of fact, that we have been practically on the gold standard for many years?

Mr. FAIRCHILD. Practically, yes.

Mr. JOHNSON. Do you not regard it as essential to the success of any well-conceived banking and currency system that the gold standard shall be accepted as the standard of this country?

Mr. FAIRCHILD. I consider it necessary to a currency system that the gold standard should be maintained; I consider it necessary to the prosperity of business that the gold standard shall be maintained; but so far as this banking system is concerned it would fit a silver standard or any other standard which might be adopted, because we have provided for the banks redeeming in lawful money. It would apply to any standard so far as the banking was concerned, but the general condition under the silver standard would be of course a far less prosperous and safe one. So far as the goodness of the currency is concerned under this law, it will always be just as good as your standard, whatever that may be. Your bank notes will be just as good as your standard. If your standard is gold they will be just as good as gold, and if your standard is silver they will be just as good as silver. If it is a paper promise to pay that they have made legal tender they will be just as good as that.

Mr. JOHNSON. This bill is rather in the nature of intermediate ground, is it not, between the system of State-bank circulation of notes, and the system of national control, bottomed on bond security?

Mr. FAIRCHILD. Well, if you go back historically, you will remember many of the State-bank notes were based on bonds.

Mr. JOHNSON. But not under national control.

Mr. FAIRCHILD. No. The distinction is between national control and local control. One is a universal control. I should not say the distinction was only in the direction of whether we put up collateral security against the notes.

Mr. JOHNSON. Is not this bill designed to say to those who advocate a return to the State bank system of circulating notes: "We do not believe it is possible to give you that system, but we will give you a system which will dispense with rigid bond security for circulating notes, and which will thereby confer upon you a good currency sufficient to answer the purpose of your trade, and which will be perfectly safe, and which will at the same time have the quality of elasticity?"

Mr. FAIRCHILD. That is it.

Mr. JOHNSON. Referring to some questions addressed to you by Mr. Cox on yesterday as to where the gold is going to come from to redeem these circulating notes of the banks provided for in your bill, I want to ask you a question along that line. During the first part of the Harrison Administration was not the overwhelming proportion of our duties paid in gold?

Mr. FAIRCHILD. In New York it probably was.

Mr. JOHNSON. What per cent, as you now remember, of the total duties on imports of the country was paid in gold at that time?

Mr. FAIRCHILD. The Treasury published some statistics to show that. It was always the duty collected at New York, where the great bulk is collected, that was shown, and they made out a little daily statement.

Mr. JOHNSON. I will ask you if it is not a fact that from 95 to 99 per cent was paid in gold?

Mr. FAIRCHILD. Yes, sir; from 95 to 98 per cent.

Mr. JOHNSON. Is it not a fact that during the last part of the Harrison Administration, especially after the passage of the act of 1890, known as the silver-purchasing act, the proportion of dues which were paid in gold dropped at once and became very small?

Mr. FAIRCHILD. It dropped at once; that is correct. It began dropping and dropped until it disappeared.

Mr. JOHNSON. Now, I will ask you if in your opinion one of the most potent factors in producing that change was not the feeling that there was danger that we might approach a silver standard?

Mr. FAIRCHILD. That was the reason of it.

Mr. JOHNSON. I will ask you whether, in your opinion, the moment it is distinctly understood that we are to remain on the gold basis the tendency will not be that the most of the import duties will be paid in gold?

Mr. FAIRCHILD. In my opinion it will.

Mr. JOHNSON. It is true, is it not, that people are perfectly willing to pay out the gold for customs as long as they are perfectly sure that the other money in their possession is as good as gold?

Mr. FAIRCHILD. They prefer to do so.

Mr. JOHNSON. Why?

Mr. FAIRCHILD. Because the other form of money is more convenient for them.

The CHAIRMAN. They want to get rid of the gold?

Mr. FAIRCHILD. Yes; when there is no doubt about their being able to get it if they want it.

The CHAIRMAN. Then persons will refuse gold when they can get paper if they are sure that paper can be exchanged for gold at any time they want the gold? Something has been said about the present condition of the silver—about its being exchanged under your bill. Whether or not that would be exchanged under your bill would depend, would it not, upon the public impression as to whether that silver was as good as gold?

Mr. FAIRCHILD. Absolutely.

EXCHANGING SILVER FOR GOLD.

The CHAIRMAN. It is your opinion that, in view of the fact that silver would constitute very largely the circulating medium below \$10 in denomination and would be generally distributed throughout the country, the danger of concentrating it for exchange would be very remote?

Mr. FAIRCHILD. Very remote. I do not think the Government would get near so much silver as now.

The CHAIRMAN. And it is also your idea that the proposition is just as broad as it is long as to whether this silver would be presented to the bank or the Government; that if it was presented to the banks and they exchanged it they would present it to the Government?

Mr. FAIRCHILD. Yes.

The CHAIRMAN. Whereas if the banks were not required to exchange it, then probably the people would present such of it as might be presented to the Government for gold?

Mr. COX. Presenting the silver to the banks?

The CHAIRMAN. Yes. I understood you to ask him along that line.

Mr. COX. No; it is not presumed that the silver will be presented to the banks. I did not follow that line of thought at all. It was whether the bank notes would be presented.

The CHAIRMAN. Then I misunderstood your question.

Mr. FAIRCHILD. My answer to the question was that the Government would have less silver to redeem if the banks were not compelled to redeem in gold—if they are not denied the privilege of redeeming their notes in silver; that there would then be less silver presented to the Government for redemption or exchange than there would be if the banks were compelled to redeem in gold entirely.

The CHAIRMAN. Please repeat that.

Mr. FAIRCHILD. I say less silver would be presented to the Government for redemption.

Mr. JOHNSON. Redemption?

Mr. FAIRCHILD. Or exchange.

The CHAIRMAN. You mean redemption by exchange?

Mr. FAIRCHILD. No. We have used the word "exchange" because we do not mean to put these silver dollars out of existence, so we have used that word "exchange" as a matter of distinction.

The CHAIRMAN. You mean really the same by exchange as redemption in drawing the bill. Redemption is a synonym in your mind for exchange, is it not?

Mr. FAIRCHILD. What we call now redemption of greenbacks is practically an exchange. We have provided in this bill for a redemp-

tion of the greenbacks, which means that they are to be retired when they are paid in gold, under certain conditions.

The CHAIRMAN. You mean final redemption?

Mr. FAIRCHILD. Yes.

The CHAIRMAN. A destruction?

Mr. FAIRCHILD. And the silver dollar we propose to exchange for the gold we will keep, as an asset in the Treasury, to be used again.

The CHAIRMAN. As the greenbacks are now exchanged?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. That is to say, you propose a destruction of the greenbacks, and to substitute for the greenbacks drawing gold from the Treasury the silver dollar?

Mr. FAIRCHILD. Yes, sir.

Mr. JOHNSON. And the danger to the Treasury would be as nothing compared to the present presentation of the greenbacks?

Mr. FAIRCHILD. There would be no danger to the Treasury whatever under this proposed bill, unless it should appear from political conditions that a state of things was likely to arise where this law would be changed. Then the Treasury would probably have occasion to redeem a great many silver dollars, or exchange them in gold.

Mr. COX. With the silver dollars carried into the Treasury, your idea is that they will be an asset in the Treasury, to be used when the opportunity presents itself?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. But you do not mean to say that these silver dollars take the place of greenbacks at all?

Mr. FAIRCHILD. No, not at all; the greenbacks get out of the way.

The CHAIRMAN. As long as Mr. Fairchild has taken back the other answer, I will ask another question: You have gone upon the principle that there must be something that bankers and citizens can get that will take gold out of the Treasury, so they can get gold when they want it, after you have destroyed the greenbacks?

Mr. FAIRCHILD. No, not at all.

The CHAIRMAN. Then you do not propose to have any means of reaching the gold in the Treasury after you have destroyed the greenbacks?

Mr. FAIRCHILD. We propose that the Government shall keep the silver dollars equal to gold.

The CHAIRMAN. How are you going to do that?

Mr. FAIRCHILD. By giving gold when anybody wants it; and we calculate that an amount of gold kept in the Treasury equal to 5 per cent of the silver dollars in existence will suffice for that purpose.

The CHAIRMAN. If you propose to redeem the silver dollars in gold by the Treasury, you propose to redeem them on demand?

Mr. FAIRCHILD. Yes, sir; on demand.

The CHAIRMAN. Then the limit will depend upon the disposition of the people to secure gold from the Treasury?

Mr. FAIRCHILD. No; not altogether upon the disposition to secure gold. You may want gold for some purpose of foreign exchange, or to pay a debt abroad; then the means that you will use to obtain that gold, whether you will use silver dollars or not, will depend very much upon the confidence of the people in those silver dollars.

The CHAIRMAN. That is wandering from my question. That is clear off to one side. That is going into another subject entirely. I want to get back to the point. The number of silver dollars that will be presented to the Treasury for redemption in gold will depend entirely

upon the desire of the people of the country—everybody and anybody—for gold, will it not?

Mr. FAIRCHILD. No.

The CHAIRMAN. Then what will it depend upon?

Mr. FAIRCHILD. It will depend upon their desire for gold, combined with their belief in the continued goodness of the silver dollar, and their desire to use it for small change.

The CHAIRMAN. Now, I don't think you should put another question in my mouth, or fail to answer the question.

Mr. JOHNSON. It strikes me that that is a very plain answer, and a very direct one, and nothing calling for that stricture from the chairman.

Mr. HILL. I would like to ask a question now in regard to the questions asked by Mr. Cox. When this bill is in operation and effect, we will have three kinds of currency—gold, silver, or silver certificates, and bank notes—and that is all?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. Now, as I understand the proposition of the Commission, they think that the silver certificates under \$10 taking the place of the present national-bank notes under \$5 in denomination, and Government currency, will be so firmly held that not even a panic will bring them to the Treasury for redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. So, practically, for redemption money, there will be gold.

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. Practically all?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. It will be used for redemption of bank notes, and there will be less silver dollars in circulation, but more silver certificates in circulation as a matter of convenience?

Mr. FAIRCHILD. I could not say.

Mr. HILL. That will be the working of it. Now, I wanted to ask you this question: Suppose a war to come, or some great demand for gold, is there any possible way in which that demand could be brought to bear upon the Treasury?

Mr. FAIRCHILD. No, sir.

Mr. HILL. Being unable to accumulate any reasonable amount of silver certificates or dollars, must not that gold be secured by taking national-bank notes to the banks for gold redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. And they will regulate that matter by the operation of the rise and fall of interest as is now done in England.

Mr. FAIRCHILD. Exactly.

The CHAIRMAN. Then you propose in your system to put the power of demanding the gold of the Government, the redeeming of money in gold, beyond the power of the people to reach; that is your point in the bill?

Mr. HILL. It puts it on the banks.

The CHAIRMAN. No, sir; I beg your pardon.

Mr. FAIRCHILD. I do not understand your question. I do not understand the assumption.

The CHAIRMAN. Your answer to the question of Mr. Hill was that the silver would be so absorbed that it was not practicable to get the silver with which to demand gold?

Mr. FAIRCHILD. Certainly.

The CHAIRMAN. That is your first proposition?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, your second proposition is that there is then nothing left in the community that they can get to bring to the Government to secure gold?

Mr. FAIRCHILD. Nothing whatever left.

The CHAIRMAN. Then what institution of individuals is to keep all of our money at par, each with every other?

Mr. FAIRCHILD. The people who issue it.

The CHAIRMAN. But where is the provision in law that anybody shall redeem it in gold?

Mr. FAIRCHILD. They can not redeem it in anything else.

The CHAIRMAN. The gold is to be in the Treasury?

Mr. FAIRCHILD. It would not be in the Treasury.

The CHAIRMAN. Do you provide by law that the banks shall redeem in gold?

Mr. FAIRCHILD. Not at all. In lawful money.

The CHAIRMAN. And your bill destroys the greenbacks?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. And you claim that the silver dollars will not be stored by the banks so they can get gold, as they now store greenbacks. Why will not the desire and the practice of the banks be to keep the silver dollars to get the gold precisely as they now keep the greenbacks?

Mr. FAIRCHILD. Because the people must have them for use in their trade and business.

The CHAIRMAN. That is, you propose to make the getting of small money so difficult that the banks can not hoard it—can not keep it to get gold for?

Mr. FAIRCHILD. I do not understand that proposition at all. We provide that silver dollars shall be the small money of the country. But we say, that being the only money in circulation in denominations of less than \$10, it will be in such a position in the country that it can not be presented for redemption in gold, and no bank would present it for redemption in gold in any considerable sum, except for a small convenience, because by so doing the bank would thereby denude its cash drawer of the thing it had to have for its customers.

The CHAIRMAN. Is it not a fact that this silver money, when it is paid in the natural course of retail trade, will be paid to the storekeepers for goods that the people buy?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. That is the use that will be made of it?

Mr. FAIRCHILD. Yes, sir; paid for car fares and hotel bills, and all kinds of things.

The CHAIRMAN. Then the answer to my question is that it will be paid by people in the retail purchases of the things they want?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, is it not the custom of all merchants, railroad companies, big merchants and small, to deposit that money in the bank?

Mr. FAIRCHILD. It is.

The CHAIRMAN. Then is it not the custom to-day for the banks to accumulate the greenbacks, retaining them, and paying out something else?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Then will it not be the custom of the banks, under your proposed law, in order to have something that is the equivalent of

gold for which to secure gold to redeem their bills, to keep the silver certificates to demand gold for?

Mr. FAIRCHILD. It will not.

The CHAIRMAN. Why?

Mr. FAIRCHILD. Because there will not be enough of it.

The CHAIRMAN. Well, I am done.

Mr. HILL. They will retain gold?

Mr. FAIRCHILD. Of course they will.

The CHAIRMAN. Then you fix the thing so that nobody can get any money on which to demand gold except bank notes?

Mr. FAIRCHILD. That is absolutely the case.

Mr. COX. Your theory, then, is, so far as the silver is concerned, that it will be put out in circulation and in the hands of the people, and consequently the banks can't concentrate it so as to draw gold from the Treasury?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Now, as suggested by the chairman, I buy, we will say, from my merchant, and the silver goes over into his hands, and he makes the deposit of silver. As I understand it, you think his necessities for the use of that money will drive it out of the bank again into circulation?

Mr. FAIRCHILD. Yes; it will be drawn out that same day, or the next day, if somebody wanted to make out a pay roll or something of that kind, and needed the money.

Mr. COX. That is your theory?

Mr. FAIRCHILD. No theory about it. It must work that way.

Mr. COX. Suppose the banks will not pay it out?

Mr. FAIRCHILD. Then the holder will go to some other bank.

Mr. COX. Can not they pay out their own notes?

Mr. FAIRCHILD. What good does that do them? Their notes are not less than \$10 in denomination.

Mr. COX. But they can take their \$10 notes and pay them out and hold the silver?

Mr. FAIRCHILD. Certainly.

Mr. COX. If they were to do that, can not you see that the banks, by concert of action, could corner the silver?

Mr. FAIRCHILD. You are supposing that the bank people are a set of blooming idiots.

Mr. COX. I could not suppose that, but I find that a bank goes for money like everybody else.

Mr. FAIRCHILD. That would be a case where it was not going for money. That would be driving customers away.

BANKING IS CONDUCTED LIKE OTHER BUSINESS ENTERPRISES.

Mr. MITCHELL. Do you know of any bank that has been in operation and has done a successful business that does not try to meet the demands of its customers, in so far as it can do so with security to itself?

Mr. FAIRCHILD. I know of no such bank.

Mr. MITCHELL. If a customer asked for greenbacks or gold coin to-day, or silver of varying denominations or kinds, the bank always accommodates that man if possible, does it not?

Mr. FAIRCHILD. If possible; yes, sir.

Mr. MITCHELL. And it is against the interests of any established bank, exactly as it would be against the interests of any commercial house, to do things which are not agreeable to its customers?

Mr. FAIRCHILD. Exactly.

Mr. MITCHELL. Do you know of any distinction in that respect between doing a good commercial business and doing a good banking business?

Mr. FAIRCHILD. None.

Mr. MITCHELL. Do you know of any bank established under the national banking system which takes any other attitude than that?

Mr. FAIRCHILD. No, sir.

Mr. MITCHELL. Now, in regard to the questions asked by Mr. Cox in relation to this charge of 6 per cent interest on the increase of circulation over 80 per cent, I apprehend that that was not drafted into the bill with the idea of particularly assisting the bank as much as it was to assist the community. Am I right about that?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. And, of course, there is nothing in the bill which compels the bank to charge even 6 per cent for any loans which they might make after that increase of circulation was taken out?

Mr. FAIRCHILD. No, sir.

Mr. MITCHELL. As a matter of fact stringencies in the money market are apt to lead to failures, are they not?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. And failures are not generally desired by banks?

Mr. FAIRCHILD. It is a thing they avoid if they possibly can.

Mr. MITCHELL. Banks will do almost anything they can to prevent a customer going to the wall, because they know the failure of a customer is injurious to them both as to the loss of their money and as to the loss of their reputation by having that class of customers?

Mr. FAIRCHILD. Yes; and it affects other customers. One thing a bank tries to avoid is the failure of anybody.

Mr. MITCHELL. Because one failure leads to another; if one customer fails, the others hear of it and avoid that bank?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. And that may lead to great disaster for that bank. It is also the case, is it not, that where those things are known, as they always are known in a business community, if a bank has suffered a number of customers to go to the wall, to use a common phrase, other depositors are apt to be a little frightened?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. So in that way it is an injurious thing for them?

Mr. FAIRCHILD. Yes.

Mr. MITCHELL. Therefore the theory that is in the minds of a number of Members of Congress, that these national banks are a species of enemy to the people at large, is not in your opinion a correct theory?

Mr. FAIRCHILD. Entirely incorrect.

Mr. MITCHELL. Do you not know that as a matter of experience the banks in great centers—for instance, New York—would be only too glad to lend their money anywhere in the United States, in the South or in the West, where they could get a higher rate of interest than they do get if they could get equal security?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. That is true to-day.

Mr. MITCHELL. I was speaking of the present. And that in the past summer, for instance, money has been loaning, on Wall street, for 1½ per cent on call?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. Is there any question in your mind that the trust companies and banks that were loaning money on call at 1½ per cent

last summer would be only too glad to lend it at 4 per cent, on good security, if they could get that per cent and good security in the South or West?

Mr. FAIRCHILD. Certainly. You are correct about that.

Mr. MITCHELL. And the only reason that the rate of interest is so low in New York is because they demand an abundance of security, and they make all their notes payable in gold coin?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. So during the past year it was possible that a man with sufficient security could borrow money at a less rate of interest than the United States Government has been paying?

Mr. FAIRCHILD. For money on call; yes, sir.

Mr. HILL. On the stock-exchange plan?

Mr. FAIRCHILD. Yes. In New York City, however, or in any great city, you can not borrow money from a bank on real estate. Even in the great money centers, when I want to borrow on real estate, the rate of interest runs from at least 4 to 6 per cent.

The CHAIRMAN. Why?

Mr. MITCHELL. I am not going into that proposition. I merely wanted to draw this distinction that has been drawn here between loans on personalty and loans on realty.

Mr. SPALDING. And secured by a mortgage on real estate. The bonds are issued on the real-estate securities which are issued by the railroads, etc.; so it is really a collateral on real estate.

The CHAIRMAN. The reason is because it can not be had at the option of the lender.

Mr. MITCHELL. Then I will ask you why.

Mr. FAIRCHILD. Because it is not so quickly and easily collectible.

CANCELING THE GREENBACKS.

Mr. MITCHELL. I think your bill provides that the first \$50,000,000 of greenbacks which are redeemed in gold shall be canceled?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. The question, of course, will be asked why you fixed on that particular sum, and I will be glad if you will give us an explanation of the selection of that particular sum for cancellation.

Mr. FAIRCHILD. We felt it would start the cancellation of greenbacks, and we fixed on that as a round sum which would create no particular embarrassment or serious contraction, and would make a certain vacuum into which bank notes could go, and would start the operation of the system which we hoped would ultimately retire the greenbacks, and we felt that we must take some of them out absolutely in order to begin making this place for the bank-note circulation.

Mr. MITCHELL. Was there anything in connection with the decline in the value of silver which had been purchased by the Government which made you come to any such conclusion as that?

Mr. FAIRCHILD. No.

Mr. MITCHELL. It was, then, more or less of an arbitrary thing?

Mr. FAIRCHILD. Yes; an arbitrary thing.

AMOUNT OF CIRCULATION UNDER THE COMMISSION BILL.

Mr. PRINCE. How much money would your bill put into circulation?

Mr. FAIRCHILD. Do you mean how much it would make possible to issue?

Mr. PRINCE. In its practical operation?

Mr. FAIRCHILD. To answer your question technically, our bill would as a necessity put none in circulation. That would depend upon the option of people and their action under it. We estimated that it would provide all that might be needed, that it would be a thing that would respond to the demands of business for a money circulation in the ordinary sense.

Mr. PRINCE. What was your judgment as to the amount it would put in circulation, as to what extent banks would avail themselves of the privileges under the law of putting out circulation?

Mr. FAIRCHILD. We believe they would avail themselves of it.

Mr. PRINCE. And if they did, how much?

Mr. FAIRCHILD. We thought all the present national banks would remain under it, that there would be a large issue in the rural districts, and an increased issue of bank notes in the cities. It would not be so great in the cities as in the rural districts, because the commercial communities do not demand the money.

The CHAIRMAN. What is the proportion between cities and country.

Mr. FAIRCHILD. The banks outside of the twenty-seven reserve cities issue 72 per cent. The reserve cities outside of Chicago and St. Louis issue 18 per cent. New York issues over 8 per cent, and Chicago and St. Louis combined issue a little over one-half of 1 per cent. Those are the proportions.

Mr. PRINCE. Is it your judgment that the reason why the banks do not now avail themselves of the right under the law is because of the tax?

Mr. FAIRCHILD. Because it is not profitable. It is not profitable because there are many elements entering in to make it unprofitable.

Mr. PRINCE. Is not the effect to eliminate the tax up to 60 per cent?

Mr. FAIRCHILD. Entirely, on note circulation.

Mr. PRINCE. And as the law now is, it is 1 per cent on circulation?

Mr. FAIRCHILD. Yes; on note circulation.

Mr. PRINCE. And with the 1 per cent paid now, to what extent in per cent do the banks avail themselves of their present privileges?

Mr. FAIRCHILD. Well, I could get the exact figures. I could give you that from the Comptroller's report. It is some \$225,000,000.

Mr. PRINCE. Is this correct, that the banks, if they wished to avail themselves of the present law, could issue about \$660,000,000 in circulating notes?

Mr. FAIRCHILD. Their capital is \$631,000,000, I think, and they could issue 90 per cent of that.

Mr. PRINCE. About \$600,000,000 in round figures?

Mr. FAIRCHILD. Yes.

Mr. PRINCE. Now they avail themselves to the extent of a little over \$200,000,000?

Mr. HILL. It is down to \$195,000,000 now.

Mr. PRINCE. As suggested by my colleague from Connecticut, and he is more familiar with that matter than I am, they now avail themselves to the extent of about \$195,000,000?

Mr. FAIRCHILD. Yes; it has been going down lately.

Mr. PRINCE. Have you any reason to think the banks would avail themselves of the opportunity to issue circulation to any greater extent under your bill than under the present law?

Mr. FAIRCHILD. I think so.

Mr. PRINCE. Why?

Mr. FAIRCHILD. Because it would be more profitable.

Mr. PRINCE. In any other way than the reduction of the tax?

ISSUING CURRENCY ON BONDS.

Mr. FAIRCHILD. In the first place, while we temporarily require the bond deposit, we authorize them to issue on all bonds as if they were on a 3 per cent basis. On some of the bonds you would issue above par. On the bonds below a 3 per cent basis we provide for that. Therefore the margin to invest in bonds to the amount you could issue would be much greater in favor of the issue. So there would be a greater profit in that direction. Then we require less bonds, because after they have issued up to 25 per cent of their capital on bonds, on that basis, under our other provisions they may continue issuing up to the whole against their general resources. And eventually, after five years, the requirement of any bond deposit is taken away, one-fifth each year, and then a bank is in a position to issue absolutely, if its customers call for it, and it is to their mutual interests to do so, and it has no other consideration than that. Therefore the amount of their issues up to the possibilities would be entirely determined by the wishes of those who borrowed from the banks.

Mr. PRINCE. Do you know, Mr. Fairchild, in what kind of money the duties are now paid in New York?

Mr. FAIRCHILD. The Treasury has not given statistics for the past year and a half, and so I do not know. They used to publish a little statement that showed the percentage of gold and gold certificates, and silver certificates, but they have suspended that for perhaps a year and a half or two years, and therefore I have no means of knowing what the proportions are. I do not know but such a thing may have been published in the Treasurer's report of this year. I have not looked at that, but I used to consult, as I have said, those daily reports to see how it was varying. I have not looked in the Treasurer's report to see if it is there.

Mr. PRINCE. As I understand, in answer to some question, you said we would have three kinds of money; that we would have gold, that we would have silver, and that we would have bank notes. Now, would not the entire matter of the expansion and contraction of our currency be put into the hands of banks if your bill should become a law?

Mr. FAIRCHILD. Yes, sir; and it is now. It would not be altered in the slightest degree from what it is now. The entire amount of currency that the people can issue, in the main, is dependent on the will of the banks to loan to-day, and you do not change it to any measurable extent by any legislation whatever.

Mr. PRINCE. Does your bill add to or take away from the present privileges of the banks upon that line?

Mr. FAIRCHILD. It makes the issuance of notes more profitable to them—offers them a greater inducement to issue notes.

Mr. PRINCE. It makes an inducement, by reason of a profit to them, to enlarge the circulation rather than to contract it?

Mr. FAIRCHILD. Yes, sir; that is correct.

Mr. PRINCE. And to that extent this bill would be better, in your judgment, than the present law along the line of increasing the volume of money?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. You are familiar, then, with the general fact as to the ownership of Government bonds in New York City?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. I see that the banks have a circulation of \$22,000,000,

or did have a few years ago. The banks of New York City in 1891 had a circulation of about \$3,000,000. Why was that increase from \$3,000,000 to \$22,000,000?

Mr. FAIRCHILD. That was very largely by the desire of the banks to accommodate their customers who wanted some bills. And then, in some of these bond issues which they have taken from the Government, having the bonds on hand, they issued against them under that consideration.

The CHAIRMAN. It shows they had about \$22,000,000 of bonds. Will you state to the committee about how many of the last \$162,000,000 issue of bonds are held by the representatives of New York banks, trust companies, and all moneyed institutions in that city.

Mr. FAIRCHILD. I have not those statistics before me now and could not give you the figures.

The CHAIRMAN. But you have a general idea? [After a pause] \$125,000,000?

Mr. FAIRCHILD. Held by the banks?

The CHAIRMAN. And individuals connected with banks in New York City.

Mr. FAIRCHILD. I should think that was a large estimate. I am not able to answer you as to that. I have never looked to see, but I should think that was a very large estimate.

The CHAIRMAN. I am talking about private holdings of bankers.

Mr. FAIRCHILD. I do not believe that the bankers hold many bonds.

The CHAIRMAN. The Vanderbilt estate had \$40,000,000.

Mr. FAIRCHILD. He took the fours in exchange for New York Central Railroad stock.

The CHAIRMAN. He sold the bonds.

Mr. FAIRCHILD. No; Mr. Morgan paid him in the bonds.

BONDS HELD IN BANKS AS A RESERVE.

The CHAIRMAN. Let me ask you this question: Is it not the fact that the bonds held in the banks in New York are held practically as a reserve? I will explain that by saying that ex-Comptroller Knox said to me that he held largely the West Shore Railroad bonds because he could always buy and sell them, and that would always give him an interest on his deposits more safely than any other paper, practically, as an addition to his reserve. Is it not customary in New York to hold bonds with the idea that they are in the nature of a reserve?

Mr. FAIRCHILD. Very often; yes, sir.

The CHAIRMAN. Then, again, is it not a fact that the taking out of currency in New York is restricted by the bonds, but that it is not dependent on their having the bonds, as it is with country banks? They would hold the bonds anyway, would they not, as a matter of reserve?

Mr. FAIRCHILD. Yes; I think they would, to some extent.

The CHAIRMAN. How is it that New York has a circulation of \$8.63, and Chicago a banking circulation of only 39 cents? It is because they do not hold these Government bonds in Chicago, is it not?

Mr. FAIRCHILD. I do not know what the reason for that great difference is.

The CHAIRMAN. Is it not a fact that the Chicago people have their banking funds in the business of the city, and do not hold so much in Government bonds as people do in New York City?

Mr. FAIRCHILD. I never have looked at the statistics to see.

Mr. MITCHELL. I think it was my colleague, Mr. Prince, who brought out the subject of stringency in the money market being controlled by the banks, and of course you would include in that individuals. In other words, an individual might lock up a vast sum of money. Take one man in New York, for instance, who is known to carry large amounts in the banks; by having his checks certified he could lock up that amount of money, could he not?

Mr. FAIRCHILD. Yes, sir.

Mr. MITCHELL. Has there been any method of compelling an individual to loan money, when he did not want to do so, since the time of inquisitorial methods?

Mr. FAIRCHILD. Not that I know of.

Mr. MITCHELL. Well, has there ever been any law enacted which would compel these corporations or individuals to loan money unless they wanted to?

Mr. FAIRCHILD. I have not known of any such law.

Mr. MITCHELL. Do you think it would be in accordance with the Constitution of the United States to compel either individuals or corporations to loan money when they did not want to?

Mr. FAIRCHILD. I should think not. It would be in the constitution of human nature that you could not do it.

Mr. MITCHELL. I was asking you in your capacity as a distinguished lawyer, and also as a financier.

THE GOLD STANDARD.

Mr. SPALDING. You have had large experience in business affairs, and also as a lawyer. You said you understood that practically we were now on a gold standard?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. Are we legally under the gold standard? I ask you as a lawyer.

Mr. FAIRCHILD. I think so.

Mr. SPALDING. Then why do you have the declaration in this first section?

Mr. FAIRCHILD. Senator Edmunds explained that yesterday.

Mr. SPALDING. But I ask you about it.

Mr. FAIRCHILD. In such a matter as that I would bow to his judgment. My own feeling is that we are on a gold standard, but some of the gentlemen on that commission thought it important that the thing should be clinched.

Mr. SPALDING. If it is so now, and is the law now, do you make it any more emphatic by a declaration that it is so?

Mr. FAIRCHILD. I think so. We are on a gold standard, and I think that is the law of the United States; but you must remember that there is a sentence in our report that says that a sovereign Government does not pay its debts except when it wills so to do. Now, every once in a while we are having a doubt raised in the minds of the world as to what our will is going to be, and the object of this provision was to reassure the world as to what our will is. That is the point.

Mr. SPALDING. Can you reassure the world?

Mr. FAIRCHILD. We can not be brought into court. Whether or not we are on a gold standard there is no tribunal that can determine it.

Mr. SPALDING. The courts have declared what the standard is, have they not?

Mr. FAIRCHILD. I say when the United States refuses to pay—

Mr. SPALDING. I did not ask you that question. Be frank with me. I am frank with you.

Mr. FAIRCHILD. I do not know. What are the cases you have in your mind?

Mr. SPALDING. I have several.

Mr. FAIRCHILD. I think that it is very probable that the courts have so declared, but the doubt is whether we are going to obey our courts. The United States can not be brought into court. The Government gives its promise, but there is no power on earth to enforce that, and when a doubt is cast upon it the feeling of some of our colleagues was that it would be well to remove in every possible way that doubt.

Mr. SPALDING. Does not this bill cast in some way a doubt upon that by the simple declaration you have in your first section? That is the question. If it is a crime to commit burglary, and so declared in the statutes, is it made any stronger by another declaration?

Mr. FAIRCHILD. As a legal proposition it is not, but I tell you if you made that declaration—if this Congress made that declaration—the credit of the United States would be enormously raised.

Mr. SPALDING. I ask you—as a lawyer, and as you have given it great attention, undoubtedly you have had great experience—what was the standard of value as declared by the courts prior to 1873?

Mr. FAIRCHILD. I do not remember any declaration by the courts before that.

Mr. SPALDING. What was the standard of value?

Mr. FAIRCHILD. The law provided silver and gold.

Mr. SPALDING. Silver and gold. Silver was a tender, and it is now, and gold a redeemer, the same as it is now. A large amount of these bonds was issued by the Government of the United States prior to 1873, was there not?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. Is it not recited in the bonds that are now out, issued prior to that time, that they are payable in coin, the standard of July 14, 1870?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. Is it not recited in every bond issued by the Government of the United States?

Mr. FAIRCHILD. I think so. I can not remember exactly as to that.

Mr. SPALDING. I am not on the stand, or I could produce some bonds here showing that. That being so, then the option in the Government was to pay in silver as well as in gold?

Mr. FAIRCHILD. I presume so.

Mr. SPALDING. If those bonds had been renewed as they were under the Windom act, did that pay the debt, or would it not follow that the original construction would hold? I am asking you as an attorney.

Mr. FAIRCHILD. You must excuse me from giving legal opinions on things of that kind.

Mr. SPALDING. Is not that a well-settled point of law?

Mr. MITCHELL. Rising to a point of order, I would say that if Mr. Fairchild is expected to do that a retainer is due him. [Laughter.]

CANCELING THE GREENBACKS.

Mr. SPALDING. The object of the retirement of the first \$50,000,000 is to create, you said, a vacancy for the bills which the banks issue?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. In your judgment, then, in order that the vacancy may be created, they could not compete with the greenback unless the greenback was retired and canceled, and hence you provide in this bill, as I understand it, for the retirement of the first \$50,000,000, so that much will be taken from the money used by the people, but it would not be taken if the greenback was allowed to continue. Would not that be the fair, logical result, from your answer?

Mr. FAIRCHILD. Yes, sir; that is, to some extent, the case.

Mr. SPALDING. Then, instead of the better money driving out the poorer money, under the Gresham law, of which we have heard so much, it is the bad money driving out the better and issuing the poorer money?

Mr. FAIRCHILD. No; I do not admit that. The Government money is all the time forced out from the Treasury; it is a legal tender, and a bank note is not to be a legal tender; and that would be the poorer money forcing out the better. The greenback being a legal tender, and being forced out by the Government, forces the bank note out of circulation, and the bank note is the better money.

Mr. SPALDING. Well, we will see whether it is better money. The total deposits of the United States, in round numbers, are about \$2,000,000,000?

Mr. FAIRCHILD. Yes.

Mr. SPALDING. Now, in order to pay the debt of the depositor, what is the legal proposition between a depositor of a bank and the bank; it is a debt, is it not?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. And the greater the deposits the greater the indebtedness of the bank?

Mr. FAIRCHILD. Yes.

Mr. SPALDING. If it is a debt, then if the depositors so desire they can compel the banks to pay all those debts in legal-tender money?

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. The currency that would issue would be of no value in liquidating and extinguishing the debt?

Mr. FAIRCHILD. No; none whatever, as compelling a man to take it.

Mr. SPALDING. Now, I will say I am a money lender in Michigan, and I live in the central part of the State. I desire a man to pay me \$100,000, and I want legal tender money. Under your process, under this bill, if it is in force—I want to understand the workings of the bill—how would the party that owed me get the money to extinguish his debt?

Mr. FAIRCHILD. He would present his bank notes for gold, if you demanded the gold.

Mr. SPALDING. Suppose I do demand it. In the city of Jackson, for instance, I could not, without great inconvenience, or the debtor could not, without great inconvenience, find any legal-tender money to present to the banks.

Mr. FAIRCHILD. He would present bank notes.

Mr. SPALDING. The issuing bank would be the only one to redeem it, would it not?

Mr. FAIRCHILD. Under this bill any bank is obliged to receive these notes.

Mr. SPALDING. I am talking on the legal proposition now. It would not redeem them? Any bank under this law, as I understand it, is not obliged to redeem any notes.

Mr. FAIRCHILD. None, except its own.

Mr. SPALDING. A man wants to get \$100,000. There are three little banks in that town, and I presume they could not gather together \$5,000 toward liquidating that indebtedness.

Mr. FAIRCHILD. Then you ought not to have such large debts as \$100,000 to pay.

Mr. SPALDING. There are a great many larger.

Mr. FAIRCHILD. Your proposition is out of all proportion to your community.

Mr. SPALDING. There are a great many people there worth more than \$100,000, but that is entirely foreign. It only shows that it would put the debtor in a fix. I can make it \$20,000, and it would be the same thing. You may think they do not demand legal tender. I have had an experience of twenty-five years in banking, and I have furnished legal tenders in a great many instances where the demand has been made. Unless the people can have that kind of money it is of more value than if I had Mr. Fairchild's note.

Mr. FAIRCHILD. How many legal tenders are there in the town now?

Mr. SPALDING. Not a great deal of legal tender.

Mr. FAIRCHILD. How many?

Mr. SPALDING. I should say, in silver dollars and greenbacks and gold, \$100,000.

Mr. FAIRCHILD. Then you can only pay one debt of \$100,000 in legal-tender money there now?

Mr. SPALDING. I am only making an estimate of it.

Mr. FOWLER. The banks would have to unite to do it.

Mr. SPALDING. On the west side of the Alleghany Mountains there are few legal tenders.

Mr. FAIRCHILD. Then how do they get along?

Mr. SPALDING. They do not always demand legal tenders, but it puts it in the power of the creditor to demand legal tender, and every depositor has the power to demand legal tender. We have \$50,000,000 or \$60,000,000 of silver. It is tied up so you can not get any of it. The answer that Mr. Fairchild made to the chairman was that it would be impossible to get gold——

Mr. FAIRCHILD. Out of the Government.

Mr. SPALDING. How are you going to get it from the banks? Are you going to go all over the country?

Mr. FAIRCHILD. If you have a deposit in the bank, and you want gold, they will have to give you gold.

Mr. SPALDING. What does the bill say?

Mr. FAIRCHILD. They have to pay their debts in legal tender if the creditor demands it, just as anybody else has to do.

REDEMPTION OF BANK NOTES.

Mr. SPALDING. Section 29 of your bill says "that the Government shall pay out in the redemption of national-bank notes the moneys in the division of redemption available for that purpose?"

Mr. FAIRCHILD. Yes, sir.

Mr. SPALDING. It does not say what it shall pay. It might be silver coin; it might be subsidiary silver, might it not?

Mr. FAIRCHILD. Or gold. It would be whatever was a legal tender, because subsidiary silver is not legal tender, except for very small amounts.

Mr. SPALDING. I understand that; but it says "available for that purpose." Does that say what it shall be? Why shall it not pay subsidiary silver? Now, we will leave that subject; I see it embarrasses you.

Mr. FAIRCHILD. It does not embarrass me at all. It discourages me when a gentleman asks the question why the Government might not pay in subsidiary silver.

Mr. SPALDING. Yes; I asked that question. Why should it not be as I have stated it, under that section? It does not require any legal tender to redeem a national-bank note. It says, "the moneys available for that purpose." Why not put in "legal tender" there, if you desire it?

Mr. FAIRCHILD. If you will read the whole bill——

Mr. SPALDING. I have read it.

Mr. FAIRCHILD (continuing). You will find you have there what gets into those funds.

Mr. SPALDING. But the Government has a large amount of subsidiary silver, it is coining large amounts of subsidiary silver, and you provide here that it may buy bullion for the purpose of manufacturing subsidiary silver, and so why do you not say what those notes shall be redeemed in? Would not that be a good thing to do?

Mr. FAIRCHILD. We provide that they shall be redeemed in lawful money.

Mr. SPALDING. Please look at the sixth page and twenty-ninth line.

Mr. FAIRCHILD. That is it (reading): "Pay out in the redemption of national-bank notes the moneys in the division available for that purpose."

Mr. SPALDING. That gives the Government the option to pay anything it chooses that is available.

Mr. FAIRCHILD. Certainly; but the only funds that would be available would be those that had gotten in there. Nothing but legal tender can go in there, and therefore nothing but legal tender can be available.

Mr. SPALDING. Now, in regard to the elasticity of the issue. We have heard a great deal about that. Do you think that under the provisions of this bill the currency would be more elastic?

Mr. FAIRCHILD. I think so.

Mr. SPALDING. The banks would extend their credits, would they?

Mr. FAIRCHILD. They always do.

Mr. SPALDING. When?

Mr. FAIRCHILD. In times of panic.

Mr. SPALDING. Did they in New York?

Mr. FAIRCHILD. Yes.

Mr. SPALDING. Did they not pay in currency?

Mr. FAIRCHILD. They extended their credit to the uttermost limit.

Mr. FOWLER. They would call in their loans, would they not, so as to provide themselves with more money?

Mr. FAIRCHILD. They would have to redeem those notes if they were presented.

Mr. FOWLER. In order to redeem those notes they would have to call in their loans?

Mr. FAIRCHILD. Certainly.

Mr. FOWLER. They could issue those notes right away again, and have the endless chain?

Mr. FAIRCHILD. Probably somebody would come the very next day, or that day, and want to borrow those notes, and pay gold to get them.

GOVERNMENT SUPERINTENDENCE OF BANKS.

Mr. COX. Taking this matter as a whole and summing up its relations to the Government, there is one matter I would like to call to your attention—that, so far as the Government is concerned, the Government preserves its superintendence over the bank?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. When it goes into full operation that is the extent of the power exercised by the Government?

Mr. FAIRCHILD. Yes; examination and supervision.

Mr. COX. A supervisory power, you might call it?

Mr. FAIRCHILD. Yes; that is it.

Mr. COX. Now, then, what authority, what law, what principle is there in our law that confers upon the Government of the United States the power to exercise any such authority as we have spoken of in regard to banks? Where does it get the authority?

Mr. FAIRCHILD. That is another one of those legal questions that I have heard stated, and, Mr. Cox, I am not prepared to answer that. Some people have held that the Government only got the power over the national-banking system through making it a part of its fiscal system. I must confess I have not examined that to any sufficient degree to answer. This is based upon the assumption that the Government has that authority. I know there is a legal question raised in that regard by some. That has only been suggested to me within a very short time.

Mr. COX. When they passed upon the authority of Congress to establish the present system of banking the Supreme Court settled that Congress had that power on the distinct ground that it is a part of the fiscal system of the United States.

Mr. FAIRCHILD. Of course these places would be depositories for Government funds, as under the present law.

Mr. COX. They can make anything a depository.

Mr. FAIRCHILD. I know that, but then it would be a part of the fiscal system. That is a constitutional question that I am not prepared to talk about. We proceeded in this bill on the assumption that there is the authority. Of course, if there is not the authority the whole thing falls to the ground. I am not prepared to give an opinion on that subject.

Mr. COX. Referring to another legal question that presents itself in connection with a question by Mr. Spalding, I would ask you this: Under the contract of the Government with its bondholders—speaking with reference to those only, because that is a contract between the United States Government and its bondholders—those bonds are on their face payable in coin, although originally they were payable in lawful money. Would you think that Congress ought to pass an act leaving the individual entirely out of consideration and making a new contract and obligating the Government to pay in gold when the original contract is payable in coin?

Mr. FAIRCHILD. I do, most decidedly.

Mr. COX. So you advocate the doctrine that Congress can change a contract?

Mr. FAIRCHILD. Congress has absolute power in the matter. It has absolute power, and it should do that which it believes to be best for the United States.

[Thereupon, at 1 p. m., the committee took a recess until 2 p. m. After recess, Hon. Robert S. Taylor was heard. His remarks will be found elsewhere.]

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 17, 1898.

FOURTH DAY.

The committee met at 10.30 a. m. Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Brosius, Johnson, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, Stallings, Ermentrout, and Maddox.

STATEMENT OF HON. LYMAN J. GAGE, SECRETARY OF THE TREASURY, AND OF HON. CHARLES S. FAIRCHILD, OF NEW YORK, A MEMBER OF THE MONETARY COMMISSION AND EX-SECRETARY OF THE TREASURY—Continued.

Mr. NEWLANDS. I would ask, Mr. Chairman, if you propose to examine the two gentlemen at the same time.

The CHAIRMAN. Yes, sir.

Mr. NEWLANDS. You will find the record will be in a very mixed state if you do that.

The CHAIRMAN. I understand, gentlemen, that the Hon. Lyman J. Gage and the Hon. Charles S. Fairchild are before the committee as experts, as well as in advocacy of their bills, and I shall ask quite a number of questions which, of course, reach to that point.

Mr. Gage, you are before the committee as a banker and financier of a large experience to render any assistance you can in framing a bill to compose the finances of the country, and have prepared bill H. R. 5181 as a basis for legislation to secure that end. How many years have you been employed in any capacity in a bank?

Secretary GAGE. Forty years.

The CHAIRMAN. How many years have you been president, and of what bank?

Secretary GAGE. For ten years president of the First National Bank of Chicago.

The CHAIRMAN. How much capital has that bank?

Secretary GAGE. Three millions of dollars.

The CHAIRMAN. What will its loans and discounts average?

Secretary GAGE. Ranging from \$16,000,000 to \$20,000,000.

The CHAIRMAN. I wish to ask you whether it is possible to use paper money, and keep it at all times equal in purchasing power to the specie it represents, without having the coin sure of easy possession for the asking in exchanging it when the desire for it arises?

Secretary GAGE. I think not.

The CHAIRMAN. Then any device that hinders or in any way delays or incites in the mind an apprehension that, upon desiring to exchange the paper money for the specie it represents, the specie may be refused or the obtaining of it delayed, tends to incite a desire to exchange the paper money for it and to incite a panic?

Secretary GAGE. It would incite distrust—that is, panic—and lead to a pressure for specie.

The CHAIRMAN. I prefer to use the word "specie," you understand, because I do not want to raise the question of coinage. Is it not a fact that there are scores and hundreds, and, in the case of mortgages, stocks, bonds, and all things that easily and surely transfer wealth, thousands and millions of funds, that are quickly available, which are

awaiting the depreciation of prices of such securities in order to purchase them at less than their normal price?

Secretary GAGE. I could not speak very authoritatively on that point.

The CHAIRMAN. I will ask Mr. Fairchild if it is not a fact that there are millions upon millions of funds, quick assets in banks, that are awaiting the depreciation of securities to purchase them?

Mr. FAIRCHILD. Yes, sir; there are always plenty of persons willing to buy at a depreciated price.

The CHAIRMAN. There is an immense number waiting to do so?

Mr. FAIRCHILD. I should think so.

RAISING THE RATE OF DISCOUNT.

The CHAIRMAN. The next question is, that the only principle upon which a safe and free issue of paper money redeemable in specie can be had is a principle that will work the destruction of a desire for specie, when it arises in the minds of the holders of the paper money that represents the specie, by then making other things more desirable to them than the specie. Is not that the principle on which the Bank of England raises the rate of discount and protects its gold?

Secretary GAGE. I should say it is, by satisfying the desire rather than by destroying it. That is the only amendment I should make to your statement. It appears in the form of statement.

The CHAIRMAN. How is it satisfied?

Secretary GAGE. Either with the gold itself or other things they prefer.

The CHAIRMAN. Is it not a fact that they will insist upon having the gold unless the action of the bank is such as to depreciate what we call solid securities to a point where they will prefer to buy them—I do not mean individually, but as a class—rather than take the gold?

Secretary GAGE. I do not think the condition necessarily would be created by the banks, as you intimate, which would produce a state of things where a person having claims and desiring gold would be satisfied with something else in the place of gold. They would be satisfied with something else in the place of gold or specie, if you prefer the more general term, providing it was to their interest to take it. Many considerations might induce them to believe it is to their interest to take things instead of specie. The inauguration of such a movement might rest with the banks; it might rest with the general public; it might be mutuality of action and interaction.

The CHAIRMAN. Let me add a word. Is it not a fact that the raising of the rate of interest, when conditions are such that the rate of interest is forced up, forces down the price of solid securities, and that solid securities are shipped from one country to another and are accepted by persons rather than specie?

Mr. FAIRCHILD. Yes, probably to some extent; but I think we exaggerate very much what banks can do or do consciously in this regard. I think we are somewhat misled by the raising of the rate of interest by the Bank of England. It does that specifically to protect the gold it has.

The CHAIRMAN. My point is, how does it protect the gold by raising the rate of interest?

Mr. FAIRCHILD. Just as it diminishes the borrowing demand. The Bank of England raises the rate of interest because the borrowing increases, and the result of that is to diminish the call upon the funds

of the Bank of England, and all of the funds of the Bank of England being gold, the result is to diminish the call upon the gold in the Bank of England. Now, in this country the same thing takes place when a man borrows a million dollars to pay a debt abroad. It makes a diminution of the loanable funds, and that of itself works an increase in the rate of interest, and when that rate of interest becomes large enough the seller of exchange, instead of meeting his remittances by the actual shipment of gold, finds a cheaper way to meet his bill of exchange. We do not have to have any specific measures to clothe banks with specific power to do that. It does it itself. It is one of the natural laws which works itself out, and if we do not put any impediment in its way it will take care of itself. That is my judgment about it.

Secretary GAGE. I agree with what Mr. Fairchild has said, but I do not think either of us yet has specifically answered your question. I am willing, for my part, to say the raising of the rate of interest tends to depress the price of securities and tends to depress the price of commodities.

The CHAIRMAN. Then the raising of the rate of interest by the Bank of England, or the banks of New York, or of Chicago, taking large cities first, is compelled by the financial situation. It is not a matter that they control, but they are compelled to do so to protect their deposits and to protect the banks. Is not that so?

Secretary GAGE. That is undoubtedly so.

The CHAIRMAN. That the bank officers do not by their own motion force up the rate of interest, but they defend themselves and defend their institutions from having their funds depleted by raising the rate of interest, and are compelled to do so by the situation?

Secretary GAGE. Yes, sir; and it is operated upon by the law of supply and demand in regard to loanable funds.

The CHAIRMAN. It forces up the rate of interest just as a wheat corner forces up wheat when there is a short supply?

Secretary GAGE. It is under the same general law, I think.

The CHAIRMAN. And the forcing up of the rate of interest of banks is an indication of overtrading and undue credit extension, and is a regulator to keep business within legitimate and safe limits?

Secretary GAGE. Not necessarily so. It may be so and generally is so, but it is not an invariable rule.

The CHAIRMAN. That is the tendency?

Secretary GAGE. The raising of the rate of interest tends undoubtedly to check operations, reduce speculation, and brings things to a normal condition, generally speaking.

Mr. Cox. As I understand you, gentlemen, you seem to agree upon this proposition—that the object of raising the rate of interest is to stop borrowing?

Mr. FAIRCHILD. No.

Mr. COX. What is the object?

Mr. FAIRCHILD. The object of it in a bank is that they can get more for their money and therefore there is more demand for it, and there is less of it, and, as in anything else, their object is to make money.

Mr. COX. Is not the tendency to stop borrowing?

Mr. FAIRCHILD. The tendency is to stop the demand.

Mr. COX. We agree upon that. Now, if all the banks acting in concert were to reduce the rate of interest, while one of their objects was to make money, yet it stops the demand. Now I ask either of you the question, if that is the fact does it not contract the money itself?

Mr. FAIRCHILD. No; it does not.

Mr. COX. If it stops the demand for the money and stops it in the bank, why is not that in itself a contraction of the circulation? They can not get it because the rate of interest is higher.

The CHAIRMAN. I will ask a question on the same line as Mr. Cox. The diminishing of loans or holding the loans at a fixed point when the pressure is great, of course, does not change by a fraction the volume of money, but limits the loans?

Mr. FAIRCHILD. That is all.

Mr. MITCHELL. If the banks find that they have raised the rate of interest so high that nobody will borrow the money from those banks at those prices, then they are immediately lowered to the market rate, are they not?

Mr. FAIRCHILD. Certainly.

Mr. MITCHELL. So it really does not tie up the money, but they simply find out what is the market price for their money and put their rate of interest at that price?

Mr. FAIRCHILD. Yes. They get what they can for it, their object being always to loan all they possibly can and keep themselves in a condition to meet their obligations.

The CHAIRMAN. Is it not a fact that the rates are never put high enough to prevent the loan of the funds of the banks up to a safe limit, under existing conditions?

Mr. FAIRCHILD. It never will be high so long as there are funds which it is safe for a bank, or a number of banks (if there are a number in a place), to loan.

Mr. HILL. I would like to ask Secretary Gage if it is not a fact that the volume of money does not change either because of the rise or fall of interest, or that the interest rises or falls because the volume of money does change, but the rise and fall of interest and bank charges are due almost entirely to the decrease of deposits and loanable funds resulting from that cause, and it has very little to do with the amount of circulation, but has infinitely more to do with the volume of deposits?

Secretary GAGE. The question is very much affected, as Mr. Hill intimates, by the state of the deposits of a bank. A falling condition of deposits requires a bank to realize on some of its assets. The raising of the volume of deposits induces the banks to extend their loans on such volume of deposits and the rate of interest tends downward.

The CHAIRMAN. Is it not a fact that the raising of the rate of interest of the Bank of England in the last ten years has always protected the gold, for the reason men desire wealth for the income upon it, and that as the price of solid securities goes down the income increases or the securities are shipped and accepted in place of gold, and that is what protects the gold in the Bank of England?

Secretary GAGE. I think that is correct.

Mr. BROSIUS. There is no legal restriction in England upon the rate of discount?

Secretary GAGE. None whatever.

Mr. BROSIUS. In this country, under our free banking system, there are restrictions. Now, under such a banking system as we possess, can we apply that English principle of regulating the amount of gold by regulating the rate of discount as effectively here as they do there?

Secretary GAGE. No, sir; we can not. The Bank of England makes the rate in that country. The rates make themselves within the limits of statutory law, which is different in every State. So far as I know, during all of my experience the banks never have made any agreement as to the rate of interest they would charge at a given time. They have

all acted under the law of individual action according to their respective conditions, and while general tendencies have often made it necessary for the individual banks in their individual capacity to move in the same direction, they have never been able, so far as I know, to make a rate of interest like the Bank of England.

Mr. BROSIUS. And never can, under our system?

Secretary GAGE. I do not see how they can.

Mr. BROSIUS. In the Bank of England the rate has been as high as 10 per cent?

Secretary GAGE. Twice in my lifetime.

Mr. BROSIUS. In nearly every State there is a legal rate of interest, and under our banking law no national bank in any State can exceed the legal rate of interest there, so that there must be considered as a maximum rate of discount a great many different rates in the different States of the Union?

Secretary GAGE. You are right except as to the State of New York, where, I believe, on demand loans on securities there is no limit as to the rate of interest. Am I correct, Mr. Fairchild?

Mr. FAIRCHILD. On securities.

Mr. BROSIUS. Let me understand that.

Secretary GAGE. And in Massachusetts I think there is no legal rate.

The CHAIRMAN. There is a legal rate in Massachusetts and in New York when there is no agreement made, but men have the right to make any agreement they choose.

Secretary GAGE. I so understand.

Mr. JOHNSON. On call loans?

The CHAIRMAN. On any loan.

Mr. FOWLER. I would like to have brought out the fact that on call loans in New York there is an exception to the statutory rate. Now, one question upon the matter of raising the rate: Is it not true, gentlemen, that after the rate rises to a certain point it is simply a question whether a large number of people who might profitably borrow at a lower rate do not borrow at the higher price because it will not be a profit to do so?

Secretary GAGE. It operates that way.

Mr. FAIRCHILD. This method of propounding questions to two of us makes it a little awkward, and I think I would like to add a little something to the Secretary's answer, because from that it would be inferred that the Bank of England had absolute power to raise the rate of interest as it chooses. Now, the Bank of England can not raise the rate of interest very much, because the Bank of England is supported by deposits as other banks are, and when it raises its rates too much its depositors will draw the money from it and loan it at a lower rate. That breaks the rate of the Bank of England and constantly does it in London. Therefore, in the end it is governed by the market rate of money. That is true of New York, and therefore I say London and New York are very much alike, but it can be done more easily in London, because the Bank of England is such a very large bank. But the thing is regulated in the end, even in London, as it is in this country, by the law of supply and demand. That is my judgment about it.

Mr. BROSIUS. I would like to say, because the Secretary's answer was that there was no legal restriction upon the Bank of England, that it is not a legal question, but an economical one, while, on the contrary, in this country in nearly all the States there is a legal limit beyond which no bank can go in its rates of discount, and that limit varies in

the States very materially. So there can be no uniform rate of discount such as would be necessary to control the amount of gold by the rate of discount, as the Bank of England does.

The CHAIRMAN. Is it not a fact, Mr. Fairchild, that the desire for taking gold or anything else for shipment is an economic desire—unless it is a miserly desire, which we do not consider in this discussion—and when the rate of interest is raised it depreciates the price of securities so that it checks the economic demand for gold, and, added to that, is it not a fact the raising of the rate of interest by the Bank of England has been effective through all these years in protecting its gold?

Mr. FAIRCHILD. The raising of the rate of interest in England by the Bank of England as an indication and exponent protects the gold in England.

The CHAIRMAN. In the secondary effect; not the first instance?

Mr. FAIRCHILD. It diminishes the demand for loans, and therefore diminishes the call for gold, which is their money. The same rule would apply to their currency, or paper, or silver, or whatever it was.

The CHAIRMAN. You say it diminishes the demand for loans. The economic meaning of that is that loans are made unprofitable when the rate is put beyond the capacity of the bank?

Mr. FAIRCHILD. Yes; that is so.

Mr. FOWLER. As a matter of fact, to-day there is no legal limit of the rate that may be charged in New York City?

Mr. FAIRCHILD. On calls of \$5,000 and upward, on securities as collateral.

Mr. FOWLER. Is it not true that a 6 per cent rate in this country at any time will stop the flow of gold to foreign countries?

Mr. FAIRCHILD. Not at any time.

Mr. FOWLER. I mean under all ordinary circumstances. In other words, is not the rate of interest in Paris, Berlin, Amsterdam, and London almost invariably lower than 6 per cent?

Mr. FAIRCHILD. Yes.

Mr. FOWLER. And therefore it is reasonable to believe a 6 per cent rate of interest would almost invariably, if not always, retain the gold in this country?

Mr. FAIRCHILD. My judgment is that it will if the gold standard or gold basis is assured. If it is not assured the gold will not always be retained.

Mr. FOWLER. Secondly, does anyone know of a State where the legal rate of interest is less than 6 per cent? If not, then the legal rate of interest in every State in the United States will control the gold flow?

Mr. FAIRCHILD. I want to say that this rate of which you speak is the rate on demand loans.

Mr. FOWLER. That is understood, but there is no limit. I would like to ask if anyone knows of any State in which the legal rate is less than 6 per cent.

Mr. HILL. Connecticut has no rate unless it is fixed in the contract.

Mr. MCCLEARY. Inasmuch as New York is the point of export, I wish to ask whether the rate in New York will not govern, after all? And, therefore, are the rates of the several States very material in the case?

Mr. FAIRCHILD. I say that under present conditions I should suppose New York would largely determine the rate, although I might say that Chicago has lately been loaning a good deal of money in Europe.

So probably the two go very much together, but New York would very largely influence it.

The CHAIRMAN. Wherever men are controlled by economic considerations the desire of men is for wealth which affords them an income, and therefore specie is never desired or even accepted in payment except for the purpose of selling it at a premium or for safety.

Secretary GAGE. That is a fair statement of fact.

The CHAIRMAN. The whole system of using paper money depends upon the instant and sure redemption in coin by the issuer of it?

Secretary GAGE. Upon perfect confidence in the coin redemption.

Mr. SPALDING. Certain and sure redemption. It does not make any difference who redeems it?

The CHAIRMAN. Not necessarily.

Mr. MITCHELL. If the issuer can not redeem it I do not see why there should be any implicit confidence in the issue.

Mr. SPALDING. Under some of these bills the Government might redeem it, and not the issuer at all.

The CHAIRMAN. Let me ask a second question, which is developed by this. In order that paper money may be safely issued and used is it not necessary that the issuer, directly or indirectly, be the redeemer of it?

Secretary GAGE. I think so.

THE ENDLESS CHAIN.

The CHAIRMAN. Now we strike something that has been talked of in the country—that a fitting illustration of this process is an endless chain that never ceases for an instant to move potentially or actually, and anything that impairs any link in the chain does it injury.

Secretary GAGE. Your question involves figures of speech which fail always to carry exact ideas, but if I catch your thought—

The CHAIRMAN. Can you suggest a more apt illustration of the necessary inevitable constant flow of currency in and out, coming in contact potentially with the specie it represents, than an endless chain which never ceases for an instant to move potentially or actually, and that anything that impairs any link of the chain does the currency system injury? Can either of you gentlemen suppose a more apt illustration?

Secretary GAGE. I think there are a dozen you might use.

The CHAIRMAN. Will you suggest any one of the dozen?

Secretary GAGE. Say individual buckets. We have adopted the endless chain as a figure of speech, which probably conveys nearly the idea involved, namely, that whoever has demands against the Government or anyone else can take those demands and have them realized in redemption money, in specie. If these obligations are again issued, the new holder can do the same, and so there is a sort of circle established, or it may be, on the one hand, the notes flow out, and in the course of the movement of trade or commerce or distrust the notes come back in a circular movement. That is not a horrible thing; it is natural, reasonable, and proper, and the issuer should never complain. Let him meet his liabilities on demand.

The CHAIRMAN. Is not that what will take place in making a redemption fund?

Secretary GAGE. I think it is.

The CHAIRMAN. Can you suggest anything further, Mr. Fairchild?

Mr. FAIRCHILD. No, sir; I think that is perfectly true. I have some-

times thought that as applied to the Treasury the endless chain needed some explanation such as Mr. Gage has given. It applies to anybody who has an obligation, and it seems to me the amount of gold that endless chain can take out of the Treasury can be stated in this way. If the revenues and expenditures are exactly equal, it potentially takes from the Treasury exactly the amount of gold that will equal the demand obligations of the Government. If the revenues are less than the expenditures, it takes that amount of gold plus the difference between the expenditures and the revenues. If the revenues exceed the expenditures, it can take the amount of the obligation minus the excess of revenues over the expenditures. That is based on the idea that the people want the gold instead of the demand obligations of the Government.

The CHAIRMAN. Mr. Fairchild, your statement involves this point, that the safety of the Government depends upon the state of its revenues?

Mr. FAIRCHILD. No; not altogether, only mainly. I have used the word "potential." Whether people will take advantage or make use of these obligations of the Government depends largely upon their state of mind.

The CHAIRMAN. What state of mind?

Mr. FAIRCHILD. The state of mind whereunder they have a certain distrust of the Government demand obligations.

The CHAIRMAN. The distrust is created by the feeling that the Government receipts of gold will not be sufficient to meet its obligations in gold?

Mr. FAIRCHILD. Not altogether. The great distrust which we have had in this country has been the fear that they would not try to meet them. That is what has taken more gold than anything else.

The CHAIRMAN. Is it not a fact that gold taken out of the Treasury goes into the possession of forces antagonistic to the Treasury, and that gold taken from a bank is immediately returned to some other bank and is kept in the banking system and the gold is not lessened in quantity? It is lessened in quantity by just that amount taken out of the Treasury which is available for redemption, while in the banks it is not lessened at all?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. In one sense the endless chain is not an evil. It is essential in the construction of a currency system that there should be a presentation of the demand notes for redemption, but the evil lies in the fact that the Government does not possess the banking facilities to enable it to meet these demand notes without undue stress?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. This is what I gathered from the statements of the Secretary and yourself on that point—that it is essential to every good banking system for circulating notes issued on coin that there should be a free and unobstructed circulation of the notes before redemption, but it is absolutely indispensable that there should be upon the ultimate redeeming authority the fullest range of power to make the redemption.

Mr. FAIRCHILD. The power of the redeemer must be as unlimited as the power for redemption.

Mr. JOHNSON. The trouble of the Government is that it has devolved upon it the functions of a bank of issue and is deprived of a great many powers which are absolutely essential to it as the issuer of money?

Mr. FAIRCHILD. Yes; the Government funds are constantly being depleted and never replenished in the ordinary course of its business, while with the bank transactions which call for the issue of its demand obligations contain the means for their payment. Now, when the Gov-

ernment issues its demand obligations the transaction which issues them contains no means whatever for their payment.

Mr. JOHNSON. That is the very point I wanted to develop, wherein the work of the Government, as a bank issuing circulating notes, differs from a well-constituted bank.

Mr. FOWLER. The counterpart of any credit note that is issued by a Government or a bank is that it shall be currently redeemed in something of real value as a measure, in order that its soundness may be tested every hour if necessary?

Secretary GAGE. In order that a condition of health may prevail. Suppose that with a bank the same circular movement of gold goes on that was spoken of a little while ago. The probability is that every bank in every money center redeems every day from 10 to 15 per cent of its liabilities, creating new liabilities to some one else, and the next day liquidating again and again, always new creditors settling and satisfying former creditors. There is a substantial redemption of a bank's liabilities. A bank's notes are not different in their essential character from the bank's deposits. They are the same in their nature and are governed by the same general principles.

Mr. MITCHELL. Some people might, I think, misconstrue your statement to mean that the endless chain or buckets, or, as Mr. Johnson, on my right, facetiously suggested, "the merry-go-round," is a good thing. I understand from the bill which you have prepared for the committee that you have established for the Government an issue and redemption department, the practical effect of which is that when demand obligations for gold are made upon the Government they shall be covered into a certain fund from which the gold is taken, and they shall not be reissued except for gold. In other words, when greenbacks are paid once by the Government they should be placed in the Treasury, and should not be reissued by the Government except on payment of gold coin.

Secretary GAGE. I think that it is so in this case, because I think when the main liabilities of the Government are so great that the theoretical provision of gold as now provided for is inadequate to redeem promptly, and give full assurances of continued power to redeem, and that is the source of weakness in the Government Treasury. The taking in a portion of these demand liabilities and putting them aside strengthens the Government, according to my bill. Allowing them to expand by giving them in exchange for gold does not weaken the Government at all, but preserves the status which had been given by taking them in.

Mr. MITCHELL. That provision does not retire any money in circulation?

Secretary GAGE. Not at all.

The CHAIRMAN. That is not true in the case of a bank. There the gold is paid in normally and actually and flows out normally and actually, and that provision is not necessary where a bank redeems in gold its own notes?

Secretary GAGE. No; it is not necessary.

The CHAIRMAN. Furthermore, if the currency of a bank was presented to the bank and gold was demanded upon it, or specie demanded upon it, it would be fatal to the whole currency system if it was insisted by the bank it should not be paid out again unless specie was presented for it. That would destroy the character of the currency, would it not?

Secretary GAGE. The bank would substantially follow the same rule. They would hold it back until they had strength enough in the reserve and specie coin so they could put it out.

The CHAIRMAN. But my question is this: You have said the specie drawn from a bank goes back naturally in the bank by being put into some other bank, while when it is taken from the Government it goes into the possession of institutions which economically are antagonistic to the Government so far as the gold situation is concerned. Now, with a bank, when it pays out its currency, when its currency is presented and coin is demanded, it does not require that the coin shall be brought back and deposited in the bank, but no more currency can be paid out by that bank?

Secretary GAGE. Not specifically.

The CHAIRMAN. It does potentially?

Secretary GAGE. It does potentially.

The CHAIRMAN. It does, because the coin finds its way to them by the banking system.

Secretary GAGE. And they soon get in a state of reserve where they can let their notes go out.

Mr. BROSIUS. Under a system of unsecured bank currency, facilities for redemption are very necessary to keep the money good; in other words, the home coming is necessary to give it a new certificate of character, so as to make it good?

Secretary GAGE. I think it is.

Mr. BROSIUS. Now, under our system of national-bank currency or under any system of secured currency where the note of every bank is just as good as the note of every other bank, is there any motive for redemption except to obtain lawful or reserve money, or in exchange for worn-out notes, etc.?

Secretary GAGE. You mention the only two motives I know of operating to send national-bank notes home under the present system.

Mr. BROSIUS. Is it correct speaking to say of the Government that it is a bank of issue?

Secretary GAGE. Well, it is not a bank of issue; it is the Government of the United States.

Mr. BROSIUS. The Treasury has frequently been compared to a bank of issue because of the greenbacks.

Secretary GAGE. Properly speaking, it ought not to be compared with a bank of issue.

Mr. BROSIUS. That is what I think.

Secretary GAGE. It is like an individual who pays his debts by giving his notes.

Mr. BROSIUS. It is the dollars the Treasury issues that make the people call it a bank of issue.

Secretary GAGE. Its notes.

Mr. BROSIUS. Has it issued any new notes?

Secretary GAGE. It keeps reissuing.

Mr. BROSIUS. And reissues silver also when it comes in—when it reissues silver-dollars worth only 50 cents on the dollar, intrinsically. Has the Treasury issued any notes in the past fifteen years in addition to what was already in issue at that time?

Secretary GAGE. I think the volume is substantially the same.

Mr. BROSIUS. We had \$346,000,000 of greenbacks fifteen years ago, and we have not issued one additional dollar of greenbacks, have we?

Secretary GAGE. No, sir.

Mr. BROSIUS. We have simply reissued as it came in through the revenues, as we do with the silver dollars.

Mr. SPALDING. There is a reissue of the Treasury notes under the law of 1890.

THE SECRETARY'S BILL A TENTATIVE MEASURE.

The CHAIRMAN. Mr. Secretary, you say your bill (H. R. 5181), which you have drawn and presented to the committee, "is not final but rather a tentative step," and again you say, "it will lead to conditions ultimately desirable. In order to know the virtue and value of the bill and the desirability of entering upon its enactment, it is necessary for the committee to know what you have in view and what you would call the completed whole.

Secretary GAGE. It would be a condition of affairs where there was a system of bank notes issued in the United States made safe to the people without the deposit in the hands of a trustee of specific security therefor, wisely limited and restricted by law so as to reduce to the minimum the possible abuses which might grow out of such a responsible duty, and eliminating substantially or entirely the Government of the United States from its present method of paying its debts by giving another debt in payment.

The CHAIRMAN. That completes the answer?

Secretary GAGE. I think it does.

The CHAIRMAN. Why should not the country enter now on the best measure which can be devised as a completed whole? Why delay?

Secretary GAGE. Theoretically there is no reason why there should be delay; practically there are many reasons. You are so familiar with them I hardly need mention them. One is the preconception of the people in favor of the Government note, which they believe to be a great economical advantage not only to the Government but to the people as well. I believe, looking at it in a narrow way, that the issue of the greenbacks by the Government saves the Government fiscal agency the payment of some interest, but I believe the economical loss to the great body of the people by this system, as compared with a proper system of bank-note issues on general assets, although unknown and incomprehensible, outweighs to a degree that can not be stated the narrow advantage gained by the mere saving of the interest to the Government fiscal agency. But such is the preconception of the people that you can not change their minds in a minute and they are timid and suspicious as to this system of bank-note issues. They fear the money control, disbelieving that anyone, having the theory in mind which I have just sketched out, can be influenced by any except the most sordid and self-interested motives. They believe, further, that such a system would not be safe, that it would be dangerous, that the people would suffer enormous losses through these bank-note issues. They look back——

The CHAIRMAN. Do you mean if the Government does not guarantee them?

Secretary GAGE. Yes. They look back to a period in our own history when through a diversity of laws in many States bank notes were issued in some sections under the power of the laws and the people were defrauded in their confidence and lost heavily through bank-note issues. They fail to remember that in many States like Indiana, Louisiana, Iowa, Ohio, and the New England States bank notes were issued to the great service of trade and commerce; that this was extended over a period of years; that there never was a loss of a dollar or a cent to any note holder, unless in the case of the New England banks, where, I think, the total losses were a fraction of 1 per cent on the basis of this circulation, during a period of many years. Now, the reason why I say it is in order to make the first step a very simple one is that every-

body may see that there is not much danger and become familiar with it until they see there is none, to be able to comprehend that there are advantages under it to the locality in which they live, especially to those living in the South and West, where, I think, the suggestion my bill carries will be found the most beneficial, and that having found this to work to their advantage and having found it to be safe they will then be ready to enlarge it and step forward carefully and conservatively until they reach a point where what is ultimately desirable may be done.

Mr. MITCHELL. The Secretary has unintentionally left out of his list of States which had safe systems the State of New York.

Secretary GAGE. I left it out because you had a secured system—secured by bonds—although it was no more secure than the others. I mentioned the States where the notes were not secured by bonds. The State of Illinois had a security system and it broke down to 45 cents on the dollar.

RETIRING THE GREENBACKS.

The CHAIRMAN. In the remarks you have just made, referring directly to the unwisdom of retiring the legal-tender notes and giving up the Government guaranteed national-bank circulation, is it not your idea that it is not wise to make any attempt now to retire the legal-tender notes or withdraw the Government's absolute guaranty of the national-bank circulation?

Secretary GAGE. That is my present opinion.

The CHAIRMAN. Does not any and every Government, except that of the United States, accept for the payment of duties and taxes the money that is accepted and used by the strongest business houses of the country?

Secretary GAGE. I think that is so; yes, sir.

The CHAIRMAN. Is it not a fact that scarcely any gold has been paid into the United States Treasury for several years in its receipts for duties, taxes, or any other payments?

Secretary GAGE. Scarcely any duties have been paid specifically in gold.

The CHAIRMAN. I asked the Department to send a statement of how much has been paid each month for the year 1897. I think I have made two or three efforts to get it.

Secretary GAGE. We probably have no microscope to figure that out, Mr. Chairman.

The CHAIRMAN. Has any gold been offered in payment?

Secretary GAGE. No; but it ought to be said, Mr. Chairman, that in New York City about 78 per cent of all the customs are collected, and a practical arrangement exists there under which dealers having customs to pay deposit the money in a bank, get a certificate of the fact that they have done so, and use this with the collector just as though it were the cash money, it being substantially a certified check on the bank. The collector passes it over to the assistant treasurer. The assistant treasurer puts it through the clearing house, where it meets checks on the Government, and thus the payment and the disbursement wash each other out through the clearing house and it does not involve the gold, but it is just as good as gold because it pays the Government's debts in the same manner.

The CHAIRMAN. If you follow the strict letter of the law without discretion, or without being influenced at all by the habits of the people, does not the law require it to be paid in other ways than these?

Secretary GAGE. I could not state exactly what the law is.

The CHAIRMAN. Then, as a matter of fact, the Government is again becoming—that is, the United States Treasury is becoming—a member of the New York Clearing House, as it was up to 1892?

Secretary GAGE. It has long been a quasi member of the New York Clearing House. Without assuming any responsibilities and risks the Government has the advantage of collecting and paying through it.

The CHAIRMAN. I do not know but that is the way to put it, but I am not questioning that. Now, then, could any gold have gone into the redemption and issue division from the general fund in the Treasury?

Secretary GAGE. In the same way that the Treasury has got it heretofore.

The CHAIRMAN. That is, by selling bonds.

Secretary GAGE. Yes, sir.

Mr. JOHNSON. Could it not be gotten in by requiring the duties on customs to be paid in actual money instead of being paid, in the way you say it is, by certified checks?

Secretary GAGE. The probabilities are that if the rule was made that all the money collected in the custom-house in New York should be paid in absolute money, we would get a good deal of gold we do not get now. On the other hand, the banks paying it in might, on the contrary, demand gold payments from the Government on its claim against them. Whether it would be a gain or a loss is a question.

EFFECT OF THE ACT OF JULY 14, 1890.

Mr. JOHNSON. You spoke a little while ago about the very small per cent of the customs being paid in gold. During the first year of the Harrison Administration, is it not true that 95 per cent of the customs dues were paid in gold?

Secretary GAGE. Yes; something like that.

Mr. JOHNSON. And then it fell off very rapidly, especially after the passage of the act of 1890, did it not?

Secretary GAGE. Yes, sir; very rapidly indeed.

Mr. JOHNSON. In your opinion, was not the passage of the act of 1890 a very potent factor in causing that falling off?

Secretary GAGE. I think it operated in that direction, and operated more and more so as time went on.

Mr. JOHNSON. Is it not your opinion that just in proportion as it is thoroughly understood that we intend to maintain the existing gold standard, just in that proportion the inflow of gold for the payment of customs duties will increase?

Secretary GAGE. I think that with confidence more thoroughly established than now, gold held by the banks would tend to flow into the hands of the Government.

Mr. JOHNSON. Would not the tendency of the banks to draw gold out of the Treasury, as you stated awhile ago, decrease?

Secretary GAGE. I do not think that tendency would exist except in times when there was an outward movement of gold. To that extent it might be drawn from the Government, but to no greater extent.

Mr. JOHNSON. Then it follows that there might be an increase of gold in the Treasury whereby it might be transferred into this redemption division?

Secretary GAGE. Yes, sir; and I said a few days ago that with this bureau of issue and redemption established and endowed with \$200,000,000 of greenbacks at the start, it was my belief that the

higher confidence in the ability of the Government to take care of itself, and the greater convenience of paper money as compared with gold, would lead the banks voluntarily, without being asked, to take in to the bureau of issue and redemption at least \$100,000,000 gold now in their vaults and ask the Government to exchange with them.

Mr. JOHNSON. When there is doubt whether the paper dollar and silver dollar are going to be kept at a parity with gold, then those that pay in customs duties prefer to pay other money than gold?

Secretary GAGE. They pay out always what they think is the poorer money.

The CHAIRMAN. The banks?

Secretary GAGE. Everybody.

Mr. JOHNSON. And when there is no doubt that the paper money and the silver money will be maintained on a parity with gold a man would just as soon part with one as another?

Secretary GAGE. It would be a matter of indifference to him.

VITAL IMPORTANCE OF THE GOLD STANDARD.

Mr. JOHNSON. So, after all, it comes back to this, that it is of vital importance to any good banking and currency system that it should be thoroughly understood that the existing standard will be maintained?

Secretary GAGE. That is my most sincere conviction; yes.

Mr. JOHNSON. Do you not think, then, it is of vital importance that any banking and currency system that is reported by this committee to the House should contain within itself a reaffirmation of the existing standard, or if that is not done, that some other form of independent legislation to that effect should be passed?

Secretary GAGE. I do so heartily believe, and I so state it in the preamble of the act which you see before you.

GREENBACK REDEMPTION.

Mr. PRINCE. Will you please state, if you can, how many dollars in greenbacks you have been called upon to redeem in gold since you have taken the office of Secretary of the Treasury?

Secretary GAGE. I could not tell you how many. I could make a guess, if you wanted me to.

Mr. PRINCE. Well, please give it to me as nearly as you can.

Secretary GAGE. I think an average of \$75,000 to \$100,000 per day. That is all.

Mr. PRINCE. That is to say, greenbacks are being brought to the Treasury of the United States and to the subtreasuries in an amount equal to \$75,000 a day, and gold is asked in exchange?

Secretary GAGE. Yes, sir; but more than that in gold is coming in.

Mr. PRINCE. I was going to ask you that question. Now please state how much gold is brought daily to the Treasury or subtreasury, and greenbacks asked to be given in exchange for gold.

Secretary GAGE. It does not work exactly in that way. I will tell you how we get gold. We buy gold at the assay offices of the United States, giving a check on the subtreasuries in payment. These checks are payable in gold, but many of the holders are indifferent whether they get gold or not, and they do not draw the gold. They come in as current funds, and we get the gold. It is a disbursement, you may say, of paper money, indirectly. Still, a larger part of them take the gold on those checks. They would cease utterly to do it if the habit could be broken up, which would be done by some action which would give no

doubt as to the continued action of this Government as to gold payments. I should add, further, that this drawing of from \$75,000 to \$100,000 a day, which is somewhere near the true amount, is drawn not for hoarding, I think, but for investment purposes; not from any mistrust.

Mr. PRINCE. That was the point I was getting at. Whether it was drawn from distrust, as matters are now running in this country. Further, will you please state whether we have now more gold on hand than we had on the first of March, when you took your office, coming in in the course of business, and for which no bonds have been issued or required to be issued?

Secretary GAGE. If I remember rightly, when I came into the Treasury, there was \$155,000,000 of gold belonging to the Government.

The CHAIRMAN. Besides the gold certificates?

Secretary GAGE. The net gold. Afterwards an outward movement set in to foreign countries, in the payment of balances, which reduced it to about \$141,000,000. I may not be speaking with strict accuracy. Since then it has gradually grown until it is \$162,000,000 to-day. In fact, at the present time the Government is indifferent about taking gold, and has refused to take it for some time past at points where, some time ago, they would have been glad to have taken it and given greenbacks in exchange. For instance, we were lately offered in San Francisco \$500,000 in gold in exchange for greenbacks at that point, and we declined the offer because it involved the expense to the Government of transporting that gold from San Francisco to where we would want it. And if the gold continues to come in in the same general ratio as it has, it will be only a question of time when we will be obliged to force gold out on our creditors, whether they want it or not.

PAYMENT OF CUSTOMS DUTIES IN GOLD.

Mr. HILL. It has been stated that the duties were formerly almost exclusively paid in gold, and now the amount of gold is infinitesimally small. Do you remember when the United States Government changed its mode of paying its obligations from gold?

Secretary GAGE. Was it under your administration, Mr. Fairchild?

Mr. HILL. And is it not true that from that time, when the United States ceased to pay its obligations in gold, the importers, dealers at the custom-house, and the banks then and there ceased to pay theirs in gold, and that since then the duties have been paid in gold to a very small extent?

Mr. FAIRCHILD. No; I don't know when the arrangement which the Secretary has described was put into effect.

The CHAIRMAN. Under Mr. Foster.

Mr. HILL. I was thinking so.

Mr. FAIRCHILD. The arrangement I made was one that made no difference as to the receipts of the different kinds of money. It was not this arrangement, but under the arrangement that I made, while it was still in continuance, the daily receipts of gold at the custom-house at New York fell from over 95 per cent down to 10 per cent, or very low indeed.

Mr. HILL. One more question. Then it is true that if the provision of the monetary commission bill, which provides that the obligations of the United States Government should be paid in gold, was in effect, and gold payments were again resumed in New York at the subtreasury and at the other subtreasuries, the duties would again be paid in gold?

Mr. FAIRCHILD. I think under the provisions of that bill almost the entire receipts of the Government would be gold.

The CHAIRMAN. Mr. Secretary, you have said that if you had in the

issue and redemption department \$200,000,000 of greenbacks to-day, and I suppose you mean the \$125,000,000 of gold out of the general Treasury, making \$325,000,000, that the banks would immediately, you think, bring gold to the Treasury for the greenbacks?

Secretary GAGE. I think so.

The CHAIRMAN. Why should they not bring the whole \$200,000,000 they now have to take the greenbacks?

Secretary GAGE. Perhaps they would. I am naturally conservative in my estimates.

The CHAIRMAN. It would be to their interest to do so, would it not?

Secretary GAGE. I think it would.

The CHAIRMAN. Then, assuming that there are \$21,000,000 of greenbacks—I believe that is the estimate, somewhere from \$15,000,000 to \$25,000,000—destroyed, you would have either greenbacks in this issue and redemption fund or gold to make up the \$325,000,000?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Then that makes the greenback purely and absolutely a gold certificate?

Secretary GAGE. It makes it essentially so. I do not think it makes it purely and absolutely so.

Mr. SPALDING. The receipts of the Government in its customs duties and the Government's expenditures now meet in the clearing house, and the balance only is payable. So you get no gold and no cash of any character except in a balance that is due the Government or paid by the Government.

Secretary GAGE. That is correct.

Mr. SPALDING. So the talk about silver and gold being paid in simply means a clearing-house balance, and there is no cash received except in the balances?

Secretary GAGE. That is largely true. I ought to say, though, that there is quite an important percentage paid in in cash. It is not all paid in in the way you speak of.

Mr. SPALDING. I know that.

Secretary GAGE. The portion that is paid in in cash is largely paid in in silver and certificates.

Mr. SPALDING. And the banks and the clearing-house exchange in the same way, and the balance is paid in the same way, but there is very little gold being handled except in the balances due?

Secretary GAGE. And those balances in the clearing house are paid in greenbacks?

Mr. FOWLER. It is supposed to be a gold payment.

Mr. SPALDING. Leave out the supposition.

Mr. FOWLER. At the conclusion of your remarks before the last question, Mr. Secretary, you were saying that the presentation was such that it would just take care of itself. Will you please inform us what, in your opinion, the result would be, under present conditions, if the balance of trade should run against us for a year, and amount to \$200,000,000 the other way?

Secretary GAGE. I think the Government would have to sell some bonds to get some gold.

Mr. FOWLER. If the burden were thrown on the banks to currently maintain the paper money of this country with the gold, and the balance of trade should turn against us, and the draft be upon the bank instead of the Treasury, what do you think the result would be?

Mr. JOHNSON. And why?

Secretary GAGE. I think there would be a movement of gold such as

would be required to satisfy the other side who had the claims, but that movement of actual coin would not be as large as it is now. I think that the banks are always in a position to resist, and they offer a natural resistance, not an agreed-on resistance as now, but a natural resistance, such as Mr. Walker sketched. The outward movement of gold would tend to increase the rate of interest.

The CHAIRMAN. And stop the gold demand?

Secretary GAGE. The rate of interest would tend to bring money to the United States or leave it here for employment. The raising of the rate of interest would tend to reduce the current market price for securities and perhaps to some extent for commodities, and these, now becoming more desirable than gold would be, would be ordered by the people on the other side for the satisfaction of their claims instead of gold.

Mr. SPALDING. If the expenditures exceeded the income of the Government, there would be no opportunity for you to gain any kind of money, either silver or gold, or anything else, to put in this reserve fund you speak of in your law; but if the revenue exceeded the expenditures, there would be no difficulty about getting the money. So it is very largely a question of income and expenditures?

Secretary GAGE. It would seriously affect the question in the direction you contemplate.

Mr. FOWLER. He says it virtually controls it. Suppose, Mr. Secretary, that the revenues of the Government exceeded the expenditures by \$40,000,000 a year and the balance of trade was \$200,000,000 against us; how would you get the gold to meet the balance against us?

Secretary GAGE. Borrow it.

Mr. FOWLER. By selling bonds?

Secretary GAGE. Yes, sir.

Mr. BROSIUS (to Mr. Fairchild). I think the Monetary Commission bill provides for the sale of silver bullion in the reserve and redemption fund, under certain circumstances, in the judgment of the Secretary. Is there any objection to using that silver bullion in the discretion of the Secretary of the Treasury for the redemption of the demand obligations presented?

Mr. FAIRCHILD. We propose that that should be a means of putting him in funds for that purpose.

Mr. BROSIUS. Instead of selling it—instead of putting the Treasury in funds by that roundabout way—why not in the discretion of the Secretary redeem demand obligations in silver bullion at its gold value, so the holder of the notes would receive full value?

Mr. FAIRCHILD. That is the same thing as his selling it for gold.

Mr. BROSIUS. Except that it is more direct.

Mr. FAIRCHILD. He can make a bargain.

Mr. BROSIUS. There is no bargain about it. It is in the discretion of the Secretary. Would it not have this effect? Persons sometimes obtain demand obligations and present them to the Treasury for gold for other than necessary purposes. Now, if they knew that they might get silver bullion instead of gold, would it not deter them from doing that in certain cases?

Mr. FAIRCHILD. Not a bit.

ESTIMATING THE STOCK OF GOLD.

Mr. COX. I desire to submit a short and practical question to these two gentlemen that has not yet gone into the record. My question is not one that draws out any discussion.

Mr. Fairchild, your commission estimates the amount of gold in the United States at \$729,661,000. By the last report from the mint there is \$567,000,000 of gold coin and \$32,000,000 of bullion. You add these two sums together and you get, from the report of the mint, the amount of the gold, which does not reach by a considerable sum the \$729,000,000.

Mr. JOHNSON. What is the difference?

Mr. COX. Some fifty-odd million dollars. Of course a part of that may be accounted for—I have not the last report—by the accretion of gold during the last year. But that is not my point of inquiry. You see these estimates of the amount of gold in the United States. How are they made? Does not the estimate start in this way? Does it not start from the books in the mint and the account that is kept there of gold that has been coined? Is not that the way that sum is arrived at?

Mr. FAIRCHILD. No, I do not think it is. I think the way they make up the amount of gold in the country is that they assume that some years back a certain amount of gold was in the country. Then they take the production and the imports and exports, by their estimates, since that time, and on that, I think, they arrive at the amount of gold. Am I correct, Mr. Secretary?

Secretary GAGE. Yes, sir.

Mr. FAIRCHILD. Of course it is necessarily an estimate.

Mr. COX. The original basis was an assumption, as intelligently, of course, as they could get it?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. Of course we have a record of the gold exported. We can arrive at those figures. But does not a large amount of gold leave the United States of which there is no record; for instance, travelers taking gold to and from the United States, and in paying out freight to foreign ships, and is there any way that the amount can be gotten accurately?

Mr. FAIRCHILD. Not mathematically exact; that is true.

Mr. COX. So here is a difference of over \$50,000,000 in these figures.

Mr. FAIRCHILD. I would look that up, if you would like me to, to see how that is gotten at. That was made up by some statistician, and I do not know exactly through which method.

Mr. NEWLANDS. Will you please give that to us?

Mr. FAIRCHILD. Yes; I will ascertain the method by which that was arrived at.

The CHAIRMAN. Is it not a fact that more money is brought in by people emigrating to this country than goes out in the pockets of people who go to Europe.

Mr. FAIRCHILD. Perhaps so.

Mr. COX. That suggests another thing; that there is more money brought in by immigration than goes out by tourists and travelers to Europe. Your attention has no doubt been called to the enormous amounts we have to pay for freight for products shipped and carried in foreign bottoms.

Mr. FAIRCHILD. Yes.

Mr. COX. Is there any way that we can arrive at that accurately?

Mr. FAIRCHILD. I do not think that that calls for a great deal of gold, in the sense that it is going out and not being known. I think that goes out in the form of exchanges in such a way that you can measure it pretty well.

Mr. COX. If I can get the attention of both of you gentlemen a minute I think I can make myself understood. I understand now, of course, a great deal of that is paid by exchanges, settled by exchanges, as the

common expression is, but whatever the exchange may be, or however it may be drawn, it goes against the amount of gold in this country, does it not?

Mr. FAIRCHILD. No.

Mr. COX. You could not draw the exchange on London if you did not have something to meet it?

Mr. FAIRCHILD. Oh, no; but our gold would go a very little way if it had to meet all the exchange on London.

Mr. COX. Your mind is running on the idea of all products?

Mr. FAIRCHILD. Yes.

Mr. COX. But however that gold gets there, and in whatever shape it gets there, and the exchange is drawn on London or a foreign country, does not that in effect make a drain upon the gold of this country?

Mr. FAIRCHILD. No.

Mr. COX. Now tell me, if it is on products that would bring gold into this country, and the products are used to pay for it there, does not that diminish the amount of gold we would receive for our products?

Mr. FAIRCHILD. Certainly. But what I thought you were trying to ascertain was the physical amount of gold that passed out of the country. Drawing a bill of exchange is no evidence of that at all, of course. That is no evidence on that point.

Mr. COX. Of course, not directly.

Mr. FAIRCHILD. No, nor indirectly, either.

Mr. COX. Suppose the bill of exchange is made by the proceeds of products that went from the United States. Would not that decrease the natural amount of the gold that would flow to this country for our products?

Mr. FAIRCHILD. Oh, certainly; but I thought you were trying to ascertain the amount of gold in this country.

[Thereupon, at 12.40 o'clock, the committee took a recess until 1.45 p. m.

The committee having reassembled, the examination of Mr. Fairchild was resumed.]

AMOUNT OF BANK CURRENCY UNDER THE COMMISSION BILL.

Mr. NEWLANDS. Mr. Fairchild, your bill provides for the gradual retirement of greenbacks and the substitution of bank currency. Will you please state the amount of bank currency that can be issued under your bill and then the amount that will probably be issued?

Mr. FAIRCHILD. It is impossible to answer as to how much possibly can be issued, because it is open to the formation of banks or the transfer of State banks to this system. Therefore it is impossible to say how much possibly could be issued.

Mr. NEWLANDS. What is the capital of all the national banks existing at the present time?

Mr. FAIRCHILD. I think about \$621,000,000.

Mr. NEWLANDS. The present limit, then, would be that capital, would it not?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. \$621,000,000 of currency could then be issued, of which 50 per cent would bear no interest. Twenty per cent of it, if issued, would bear 2 per cent interest, and 20 per cent more, if issued, 6 per cent. Is that so?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. So that the probable issue at the start, assuming

that the present capital remains as the capital of the national banks, would be only \$380,000,000 additional, would it not?

Mr. FAIRCHILD. You mean 60 per cent of \$621,000,000?

Mr. NEWLANDS. Yes, sir.

Mr. FAIRCHILD. I think it would be more than that. I think considerable would be issued above the 20 per cent. I think many banks would issue above 60 per cent.

Mr. NEWLANDS. Even without a stringency?

Mr. FAIRCHILD. Yes, sir; I think so.

Mr. NEWLANDS. But their 20 per cent, you think, would only be issued in case of emergency?

Mr. FAIRCHILD. That was our idea.

Mr. NEWLANDS. Now, what emergency would that be intended to meet?

Mr. FAIRCHILD. Any demand for that kind of money in excess of the ordinary reasonable demands, whatever it might come from.

Mr. NEWLANDS. Would it be expected to meet such an emergency as we had in New York when clearing-house certificates were issued?

Mr. FAIRCHILD. It would undoubtedly be issued at such a time.

Mr. NEWLANDS. When depositors were calling for their money and the reserves of the banks were being diminished?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. Could depositors in such conditions be compelled to take such notes in payment of their deposits?

Mr. FAIRCHILD. No; no one can be compelled to take them at any time.

Mr. NEWLANDS. It would be entirely voluntary?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. You give the sanction of law to a practice that has prevailed in New York and other great money centers in this country in times of great emergency? Is that it?

Mr. FAIRCHILD. No, I do not think that this is quite parallel to the issuance of clearing-house certificates. I think clearing-house certificates go further than this.

Mr. NEWLANDS. It meets partially that emergency?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. Do you think that any large proportion of the State banks would avail themselves of national-bank facilities if this act were passed?

Mr. FAIRCHILD. I do think they would.

Mr. NEWLANDS. Do you know what the capital of the State banks of the country is?

Mr. FAIRCHILD. No, I do not remember that.

Mr. NEWLANDS. It is stated by the Comptroller of the Currency to be \$228,000,000. Do you think that is approximately correct?

Mr. FAIRCHILD. I think so.

Mr. NEWLANDS. Do you think that all these State banks would avail themselves of it?

Mr. FAIRCHILD. I can not say. I am not familiar with the State banks in the various parts of the country. I should think a large proportion of them would.

Mr. NEWLANDS. A majority of them, do you think?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Do you think three-fourths of them would?

Mr. FAIRCHILD. It would be mere guessing.

Mr. NEWLANDS. Well, if they all did it would allow, with their present capital, an issue of \$228,000,000 more in currency, would it not?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. Making a total of \$880,000,000?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Of which \$520,000,000 would be without interest, \$180,000,000 would be at 2 per cent interest, and \$180,000,000 would be at 6 per cent interest?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Those are the possibilities of circulation, assuming that the capital of the State banks and of the national banks remains as now?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Do you think that the capital of existing banks would be largely increased with a view to availing themselves of this right to issue currency?

Mr. FAIRCHILD. If it was found to be profitable, it would be?

Mr. NEWLANDS. There would be no difficulty about enlarging the capital of these banks if it was found to be profitable?

Mr. FAIRCHILD. None whatever.

Mr. NEWLANDS. Does the surplus of these banks cut any figure at all in the issuance of currency?

Mr. FAIRCHILD. No.

Mr. NEWLANDS. You can not issue currency against the surplus capital of a bank?

Mr. FAIRCHILD. No.

Mr. NEWLANDS. It would be very easy, however, if those banks desired to do so, to turn the existing surplus into capital, would it not?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. The existing surplus of the national banks being \$330,000,000 and of the State banks \$102,000,000, it would be possible to turn that into capital and to issue currency against it?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. How about the loan and trust companies? Do you think that this bill would furnish any inducement for the acceptance by them of the provisions of the national bank act?

Mr. FAIRCHILD. Well, I could not say that. I doubt if it would be done in New York. As to other places, I am not familiar enough with the business to give a useful judgment upon it. I do not think it would be in New York.

Mr. NEWLANDS. The Comptroller places the capital of the loan and trust companies at \$106,000,000. Is that approximately correct, according to your idea?

Mr. FAIRCHILD. I do not know the amount of capital.

Mr. NEWLANDS. How about the private banks? Is a very large proportion of the business of the country done by the private banks?

Mr. FAIRCHILD. Yes, sir; quite a large proportion.

Mr. NEWLANDS. They make no reports, I presume?

Mr. FAIRCHILD. I am sorry to say that I am not familiar with that. I have an impression that some of the States require something from them. I am not positive about it.

Mr. NEWLANDS. Do they in New York?

Mr. FAIRCHILD. I can not say what is the requirement in New York. There are certain laws regulating them, but I am not familiar with them. I can not answer that.

RESERVES HELD AGAINST DEPOSITS.

Mr. NEWLANDS. Are you familiar with the reserve actually kept by banks as against deposits?

Mr. FAIRCHILD. Only from the statistics that are given in the Comptroller's report and from our weekly reports in New York.

Mr. NEWLANDS. What is the custom in New York as to bank reserves?

Mr. FAIRCHILD. As a rule, they aim to keep there 25 per cent in the national banks. Last week I saw they ran from that up to something over 30 per cent; perhaps 32 or 33 per cent.

Mr. NEWLANDS. Do you think safe banking requires that?

Mr. FAIRCHILD. It depends entirely upon the nature of the deposits of the bank. In some banks that would be enough, and, in fact, entirely too much, and sometimes it is not enough. It is a matter of judgment, discriminating as to the business the particular bank is carrying on and the nature of its deposits.

Mr. NEWLANDS. On an average, what would you think?

Mr. FAIRCHILD. I think 25 per cent is ample with us.

Mr. NEWLANDS. And is a reasonable reserve for a bank to maintain in gold?

Mr. FAIRCHILD. As a rough rule, I should say it was.

Mr. NEWLANDS. Do you believe reserves should be fixed by law?

Mr. FAIRCHILD. I do not; no, sir.

Mr. NEWLANDS. They operate, I presume, as a limitation against the loaning capacity of a bank at times of stringency when a little relaxation of the rule would ease the situation; do they not?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. But as a general rule you would think that an average of cash deposits of 25 per cent was reasonable and judicious in a bank?

Mr. FAIRCHILD. I should think so.

Mr. NEWLANDS. Would you apply that same rule to banks outside of great cities like New York, Chicago, and Boston?

Mr. FAIRCHILD. No; I do not think it is necessary outside of the great cities. It has not been shown to be.

Mr. NEWLANDS. What reserve would you think necessary?

Mr. FAIRCHILD. I think the 15 per cent reserve has been shown by experience to be ample. And even that is not kept in the country banks.

Mr. NEWLANDS. A portion of that can be deposited with the reserve cities, can it not?

Mr. FAIRCHILD. Yes; I think it is three-fifths.

Mr. NEWLANDS. Leaving, then, only two fifths?

Mr. FAIRCHILD. Two-fifths in their own vaults.

Mr. NEWLANDS. Does not that often operate to the disadvantage of the bank in a country community in times of stringency? Is it not then obliged to call upon the great banking centers of the country when they are under equal pressure?

Mr. FAIRCHILD. Yes; of course if the country bank wants the money, it can call it from the city bank.

Mr. NEWLANDS. Is it not a fact that on several occasions during the past six or seven years, during periods of stringency—or on one occasion, at least—the country banks found it impossible to get their reserves back from the reserve cities?

Mr. FAIRCHILD. They found that to some extent, I think, in 1893.

Mr. NEWLANDS. Was it not to a considerable extent?

Mr. FAIRCHILD. To a considerable extent; yes, sir.

Mr. NEWLANDS. During the time they were issuing clearing-house certificates in New York the country banks then found that they did not really have this reserve available for the demands of their depositors. Is not that so?

EXPERIENCES OF 1893.

Mr. FAIRCHILD. I think so. I would not like to attempt to give a diagnosis of 1893 off-hand, because I have never made it carefully as to how they work. The thing that impressed me was the entire disappearance of all forms of money everywhere, and I have not gone much further into the investigation as to exactly how it was distributed and effected, and I would not like to answer accurately in regard to proportions of that, as to exactly how it did affect the country banks, as to getting their reserves. Undoubtedly it was affected to a greater or less extent, but I am not prepared to give a useful answer on that subject.

Mr. NEWLANDS. Do you think, then, that it is a wise thing to permit country banks to place a portion of their reserves on deposit with the banks in reserve cities?

Mr. FAIRCHILD. Yes; I am inclined to think it is. We considered that a great deal in the commission, and I was at first of the opinion that they ought to be required to keep it all at home, but generally the weight of evidence seemed to be that that was an undue interference with the natural course of business. So we came to the conclusion that it was wiser to leave it as it was. It had worked pretty well for whatever time it had been in existence—a great many years—and we thought experience was sufficient to show that we had better leave it alone.

Mr. NEWLANDS. Do you not think, as a matter of individual judgment, Mr. Fairchild, if a country bank is compelled by law to keep 15 per cent of reserves and it can under that law turn over 9 per cent to a bank in a reserve city, retaining only 6 per cent, that in time of great emergency, in which alone these reserves are needed, the reserves of that bank are limited to 6 per cent instead of 15 per cent for practical purposes?

Mr. FAIRCHILD. No; I do not think that is a true deduction from it, and I do not think it is quite accurate to say that these reserves are intended against the kind of emergency that arose in 1893. I think that the reserves which we provide, and which you generally assume to be the proper reserves for banks, are there against the normal business relations of the people, not against great convulsions or a condition of popular—well, almost insanity, as you might say, because the panic of 1893 was almost of that character. There was no reason, no judgment, nothing that can account for that state of things in the ordinary course of business judgment. Now, I think that the reserves are designed to carry on the sort of business that conditions have shown to be wise year in and year out. I do not think there is any providing for such a time as that of 1893, and I do not think that you can frame a law which will be workable if you take these great catastrophes as your measure.

Mr. NEWLANDS. How many times within your experience have clearing-house certificates been issued in New York?

Mr. FAIRCHILD. I can not remember, Mr. Newlands. I think about three times since I have been in New York. I do not think more than that.

Mr. NEWLANDS. How long have you been there?

Mr. FAIRCHILD. It was in 1889 I left here. I do not know how many times, but I think it was three times.

Mr. NEWLANDS. Within a period of eight or nine years?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. The issuance of clearing-house certificates in New York means a suspension of specie payments, does it not?

Mr. FAIRCHILD. No, it does not mean suspension of specie payments so far as the banks are concerned. The issuance of clearing-house certificates means that the strong banks help the banks that are not so strong. They put their resources at the service of their neighbors, and then these certificates supply the balance among the banks. They do not apply to the outside public.

PERCENTAGE OF CASH ON HAND TO DEPOSITS.

Mr. NEWLANDS. I observe in the Comptroller's report that the deposits in national banks amount to \$1,768,000,000, and the percentage of cash on hand is about 25 per cent, being \$435,000,000. Then in the State banks the deposits are \$723,000,000, with cash on hand of \$116,000,000, being 16 per cent. In private banks the deposits are put at \$50,000,000, cash on hand \$5,000,000, being 10 per cent of the deposits. In loan and trust companies the deposits are put at \$566,000,000, the cash at \$28,000,000, being 5 per cent. And in savings banks the deposits are put at \$19,583,000,000, cash on hand \$42,000,000, the percentage being 2½ per cent. With this statement of cash on hand in relation to deposits and the percentage which I have given you of cash deposits, do you think that these banks require the amount of cash stated as reserves?

Mr. FAIRCHILD. Under present conditions I should think they did.

Mr. NEWLANDS. It is an average throughout, you will observe, of 12½ per cent. That is \$2,000,000,000, being the deposits of all these banks, and the cash on hand being \$626,000,000 in all the banks. Therefore the percentage of cash to deposits would be 12½ per cent. You would not regard that as excessive, would you?

Mr. FAIRCHILD. No. I think it is ample, however, when you take all of those institutions. For instance, you include the savings banks, which in our State are forbidden by law to have more than a certain amount of their money uninvested, because they are not supposed to be banks in the ordinary sense of the term.

Mr. NEWLANDS. You will observe that the percentage of their cash is only 2½ per cent.

Mr. FAIRCHILD. Yes, sir. Their total is very large, though.

Mr. NEWLANDS. You will notice that the reserve of the loan and trust companies is stated as 5 per cent.

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Would you regard that as sufficient?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. You think it is sufficient?

Mr. FAIRCHILD. I fancy that amount must include institutions like the building and loan companies, that require no cash on hand and have no demand obligations on them. I refer to the purely trust companies like those with which I am familiar. I do not know how much cash they have. I would not be able to say, but certainly it has been demonstrated to be enough.

Mr. NEWLANDS. In the New York trust companies, within your observation, what percentage of cash to deposits do they maintain?

Mr. FAIRCHILD. Many trust companies in New York keep their cash by depositing in banks.

Mr. NEWLANDS. Then it counts as a part of the cash reserves of those banks?

Mr. FAIRCHILD. No; I do not think it does. I think that the amount the Comptroller has given is the cash in their own vaults, but they keep a very considerable sum on deposit with banks.

Mr. NEWLANDS. Then they stand in the ordinary position of depositors with commercial banks, in that case?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. The Comptroller's report shows that this \$626,000,000 held as reserve against all these deposits is classified as follows: Gold, \$242,000,000; silver, \$53,000,000; legal tender, \$246,000,000; specie, \$2,600,000; cash not classified, \$82,000,000; making in all, \$626,000,000. Have you any idea what that term "cash not classified" means?

Mr. FAIRCHILD. No; I have not. I suppose they have not classified it themselves, but it was returned simply as cash. You see, he has not only given figures concerning those which are compelled to report, but those also whom he invites to report, and possibly the latter have not given the details.

Mr. NEWLANDS. This is a statement of the national banks, the city banks, the private banks, the loan and trust companies, and the savings banks, so far as he has been able to collect them?

Mr. FAIRCHILD. He probably has not received accurate reports from some whom he invited to report, but who were not obliged to report to him. They have probably given it to him in the form that it appears here—as "cash not classified."

Mr. NEWLANDS. You mean that would apply to this cash not classified?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. But not apply to the table of cash on hand?

Mr. FAIRCHILD. That is the idea.

Mr. NEWLANDS. Then it is safe to assume that the \$82,000,000 cash not classified is made up of gold or silver or legal tender, or is composed of all of these?

Mr. FAIRCHILD. I suppose so. Some of them may have stretched their imagination a little and called some things cash that were not cash; but of course that would be misleading if they had done so. In that \$82,000,000 there probably was a considerable amount of national-bank notes.

Mr. NEWLANDS. Ah! National-bank notes?

Mr. FAIRCHILD. I should think so.

Mr. NEWLANDS. It would be improper to call them any part of the reserves of these banks?

Mr. FAIRCHILD. Yes, they ought not to be so called. But in practice, I think, you will often find private banks in the different States do so call them. You will find that they have not made that discrimination.

Mr. NEWLANDS. Then, if that is the case, the cash reserves of the banks in lawful money—of all these banks—would be less than \$626,000,000?

Mr. FAIRCHILD. In considering the sources of that sum I should think it would be fair to assume that some portion would be bank notes. I speak merely as a surmise.

Mr. NEWLANDS. Yes; I think you must be right about that. You will observe that there is only \$53,000,000 of silver in all these banks. Where is the rest of the silver of the country?

Mr. FAIRCHILD. I do not know. There is \$50 or \$60 in my pocket. That is all the money I have, and I suppose it is mostly in people's pockets.

Mr. NEWLANDS. Mostly in people's pockets in the shape of silver certificates?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. And that you propose to maintain in this bill as the currency of the people?

Mr. FAIRCHILD. Yes; below \$10.

Mr. NEWLANDS. You expect that to constitute the pocket money of the people?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. So you do not expect any large part of that to constitute the bank reserves?

Mr. FAIRCHILD. No; I do not.

AMOUNT OF LEGAL TENDERS IN CIRCULATION.

Mr. NEWLANDS. You will observe that the legal-tender money in these bank amounts to \$246,000,000. What is that?

Mr. FAIRCHILD. I suppose that includes the notes you call the Treasury notes—the notes of 1890—as well as the United States notes.

Mr. NEWLANDS. What is the sum total of the Treasury notes of 1890 and the United States notes?

Mr. FAIRCHILD. The United States notes are \$346,000,000. The Treasury notes have constantly been reduced. I can not remember just what they amount to.

Mr. NEWLANDS. I think it is \$109,000,000.

Mr. FAIRCHILD. Yes. Well, they are constantly being reduced under the operations of the Treasury.

Mr. NEWLANDS. They are constantly being redeemed, and then silver certificates are issued in their place, so that the amount of silver certificates in the country is being gradually increased and the amount of Treasury notes under the act of 1896 gradually diminished?

Mr. FAIRCHILD. Yes, sir. On the 1st of January there were in existence of these Treasury notes about \$106,000,000 only.

Mr. NEWLANDS. Then the total of the greenbacks and the Treasury notes, constituting the legal tender referred to in the cash reserves, amounts to \$452,000,000. Of the \$346,000,000 of greenbacks, what amount is impounded in the Treasury now?

Mr. FAIRCHILD. On the 1st of January there were in existence \$84,200,000, and if we take out the currency certificates, \$43,000,000, that would leave the Treasury holding about \$41,000,000 on the 1st of January.

Mr. SPALDING. I think the Secretary said it was about \$60,000,000 now.

Mr. HILL. Including currency certificates?

Mr. FAIRCHILD. That is on the 1st of January. That would leave about \$41,000,000 net to the Treasury.

Mr. NEWLANDS. Then there are at the present impounded in the Treasury about \$41,000,000 in greenbacks?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. If your act becomes law will that \$41,000,000 be released?

Mr. FAIRCHILD. There is nothing in our act that releases it.

Mr. NEWLANDS. There will be nothing in the law, as I understand it, to compel their reissue.

Mr. FAIRCHILD. Yes, these are to be issued and reissued. They are to be treated under our bill as they are now, except as bank notes shall be issued to take their place, not to be retired except the first \$50,000,000 of them. We provide that they may retire \$50,000,000 which have been presented to the Treasury for redemption in gold; that this first \$50,000,000 shall be retired, and then no more of them shall be retired except as their place is filled by an issue of bank notes, as authorized under our bill.

Mr. NEWLANDS. Is this \$41,000,000 now in the Treasury a portion of this first \$50,000,000 that your bill provides for retiring?

Mr. FAIRCHILD. No.

Mr. NEWLANDS. Fifty million dollars would be retired?

Mr. FAIRCHILD. Yes; as they were presented to the Treasury for redemption in gold the Treasury is to retire them.

Mr. NEWLANDS. And then gold would take their place in the circulation of the country?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. If, then, \$41,000,000 was now impounded in the Treasury and remained there, it would leave only \$411,000,000 of legal-tender notes outstanding, would it not?

Mr. FAIRCHILD. That is a matter of figures. If that is what you deduce, very well.

Mr. NEWLANDS. And then by figuring we see that the net amount in the Treasury would be \$411,000,000 as the amount of legal tender in circulation.

Mr. FAIRCHILD. That is after destroying the \$50,000,000?

Mr. NEWLANDS. No; on the 1st of January.

Mr. FAIRCHILD. It is \$106,000,000 and \$346,000,000.

Mr. NEWLANDS. That makes \$452,000,000?

Mr. FAIRCHILD. Yes. Then take \$41,000,000—

Mr. NEWLANDS. Which would make \$411,000,000?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Then, according to this statement, there are \$411,000,000 in legal-tender notes in circulation among the people, consisting of greenbacks and Treasury notes of 1890? Now, \$246,000,000 of that amount are stated to be in the banks. That would leave \$165,000,000 of greenbacks unaccounted for. Do you think that the \$165,000,000 are in circulation among the people, just as the silver certificates are?

Mr. FAIRCHILD. Yes; they must be. I do not think they are in quite the active circulation the silver certificates are, because the silver certificates, if I am right, as a rule are in smaller denominations. So I think the legal-tender notes, the greenbacks, are probably more held for hoarding, and in those ways in which money disappears, but they must be held somewhere.

Mr. NEWLANDS. Do you think that any large proportion of them has been destroyed by use?

Mr. FAIRCHILD. I do not.

Mr. NEWLANDS. You think they are in existence, then?

Mr. FAIRCHILD. Yes.

AMOUNT OF SILVER IN CIRCULATION.

Mr. NEWLANDS. What is the amount of silver certificates and silver that is in circulation among the people, outside of the \$53,000,000 of silver in the banks?

Mr. FAIRCHILD. That is a mere deduction from these figures. The

Comptroller gives as in circulation on the 1st of January \$376,695,000, and whatever is in the banks.

Mr. NEWLANDS. \$376,000,000 in round numbers. Deduct \$53,000,000 in the banks, and it leaves \$323,000,000 of silver in the hands of the people?

Mr. FAIRCHILD. Silver certificates alone.

Mr. NEWLANDS. Then what additional amount of silver is there in the hands of the people?

Mr. FAIRCHILD. \$61,691,000 of silver dollars.

Mr. NEWLANDS. Leave out the fractional currency.

Mr. FAIRCHILD. And all the subsidiary silver, \$65,000,000.

Mr. NEWLANDS. That would make \$323,000,000 of silver certificates, \$61,000,000 of silver dollars, and \$65,000,000 of fractional silver, which altogether would make \$449,000,000, would it not?

Mr. FAIRCHILD. I have not added it up.

Mr. NEWLANDS. Well, adding the \$165,000,000 of greenbacks outside of the banks, that would make \$614,000,000 in circulation among the people, would it not?

Mr. FAIRCHILD. Yes; I think that is a fair deduction. Outside the banks, you mean?

Mr. NEWLANDS. Yes.

Mr. FAIRCHILD. That is right.

Mr. NEWLANDS. Do you think that amount of money is required by the people in their ordinary business and exchanges?

Mr. FAIRCHILD. That would be determined, I should think, by the amount they did use, and you can draw your conclusion from that. I should say no, that that amount was not needed, that everybody could use less money in his pocket if he chose to do so, and get along perfectly well. I am sure I could get along by carrying ordinarily one-fifth of what I generally do carry.

Mr. NEWLANDS. But the best test of what the people require is what they actually use?

Mr. FAIRCHILD. Yes; they find that convenient, apparently, and you can judge from that.

GOLD AVAILABLE FOR GREENBACK REDEMPTION.

Mr. NEWLANDS. If by this process of retiring the greenbacks and the substitution of bank notes the \$246,000,000 of legal-tender notes now in the banks were withdrawn, what substitute would the banks have for the reserve so withdrawn?

Mr. FAIRCHILD. You mean when they were all withdrawn?

Mr. NEWLANDS. Yes.

Mr. FAIRCHILD. They would have gold.

Mr. NEWLANDS. Gold?

Mr. FAIRCHILD. Gold.

Mr. NEWLANDS. So, instead of having \$240,000,000 as now, they would have \$240,000,000 plus \$246,000,000. Where would that gold come from?

Mr. FAIRCHILD. It would come from wherever it is, or was at that time.

Mr. NEWLANDS. Would it come from the Treasury?

Mr. FAIRCHILD. Some would come from the Treasury.

Mr. NEWLANDS. Do you regard the Treasury reserve in gold as too large?

Mr. FAIRCHILD. It would not need any of it then.

Mr. NEWLANDS. Would it not need considerable gold in reserve for the purpose of redeeming silver?

Mr. FAIRCHILD. We provide for only 5 per cent in our bill, as against that silver. We think that would be sufficient.

Mr. NEWLANDS. Very well, then. You would by this process get \$150,000,000 out of the Treasury?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. One hundred and fifty million dollars would exhaust all the gold that is in the Treasury now, wouldn't it?

Mr. FAIRCHILD. Wait a minute. I will give you that in a minute, after I make the calculation. [After making a calculation.] That brings it to about \$160,000,000. The Secretary said to-day it was \$162,000,000.

Mr. NEWLANDS. As I understand it, you propose ultimately to retire \$411,000,000 of greenbacks and Treasury notes?

Mr. FAIRCHILD. If it went into operation to-day that would be what it would do; but as this process goes on of reducing the number of Treasury notes, which is apparently a pretty rapid one, of course the amount is diminishing all the while.

Mr. NEWLANDS. By turning the legal tenders into silver?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. If it went into operation now, the Government would have to retire \$411,000,000 of greenbacks and Treasury notes?

Mr. FAIRCHILD. If they were offered to-day, that is the sum that they would have.

Mr. NEWLANDS. But your expectation is that a portion of these Treasury notes will be turned into Treasury certificates, and thus the drain upon gold diminished?

Mr. FAIRCHILD. It is evident that is the process that is going on.

Mr. NEWLANDS. Yes; I think so. When that process is complete, assuming that \$106,000,000 of Treasury notes are retired with silver certificates, you would have outstanding, then, the silver certificates, being \$376,000,000, and adding to that the \$106,000,000, \$482,000,000 of silver?

Mr. FAIRCHILD. Have you added the silver dollars?

Mr. NEWLANDS. No; simply the silver certificates. How much would the silver dollars make it?

Mr. FAIRCHILD. \$61,000,000 more.

Mr. NEWLANDS. Adding the \$61,000,000 of silver dollars would make \$543,000,000 of silver in circulation?

Mr. MITCHELL. Then there is a fractional silver, too.

Mr. FAIRCHILD. Exclusive of the fractional silver that is the full legal tender.

Mr. NEWLANDS. Then your \$346,000,000 of greenbacks would be retired by gold from the Treasury, of which there is \$160,000,000 now available?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. How much of that would have to be retained as a reserve against the silver?

Mr. FAIRCHILD. About \$25,000,000 or \$30,000,000. Let us see. It is 5 per cent, as we put it in the bill, and I think you ought to include the subsidiary coin. That would make \$106,000,000, because the Treasury has to be prepared to take care of that all the time.

Mr. NEWLANDS. That would make about \$30,000,000?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. So you would have \$130,000,000 out of the gold that

is now in the Treasury available for the redemption of the \$160,000,000 of greenbacks?

Mr. FAIRCHILD. That is proceeding on another assumption. To be perfectly accurate, we must remember that, of course, there would be some of that silver in the Treasury, so you would not have to keep the reserve against that.

Mr. NEWLANDS. But we have not included that silver that is in the Treasury, as I recollect.

Mr. FAIRCHILD. Well, there is not much there, but the amount the Treasury would hold would be considerable. I should think it would always hold \$5,000,000 or \$10,000,000 of silver.

Mr. NEWLANDS. It would not make any appreciable difference in the gold reserve?

Mr. FAIRCHILD. No.

Mr. NEWLANDS. So we would have \$130,000,000 available for the redemption of the greenbacks? Then, with \$346,000,000 of greenbacks to redeem, the Treasury notes being practically eliminated by the method you would have described, and \$130,000,000 in gold available to redeem them, \$216,000,000 more in gold would be required for their redemption?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. Do you mean that amount would be required to get them all out of the way?

Mr. NEWLANDS. Yes; where would you get that gold?

Mr. FAIRCHILD. I think if this whole scheme were put into operation that would be entirely a matter of whether the Treasury had a surplus revenue or not. If it had a surplus revenue over and above its expenditures, practically all of the surplus revenue would be in gold, and that would furnish it as far as that is concerned. Of course, if it did not have the surplus revenue, and sold its time obligations under the provisions of this bill to take it up, they would be sold for gold.

Mr. NEWLANDS. I presume you will admit that gold would either have to come out of the coin now in circulation in this country or out of the annual production of the mines or from foreign countries; one of the three?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. From which one of those three sources do you think it will come?

Mr. FAIRCHILD. From all three of them, and it would come at first most largely from foreign countries.

Mr. NEWLANDS. You would expect, then, to increase the bond issues of the country, would you not, to some extent?

Mr. FAIRCHILD. Of course, if this went into operation and all these greenbacks were presented at once, it is a mere matter of mathematics that it would increase the bond issues. From my standpoint the difficulty in all this is not the one suggested by your question; but the difficulty would be, if this bill went into operation, to ever get those greenbacks and demand obligations of the Government into the Treasury. They would not come, and in my apprehension the Government never would sell a bond to take them up. I do not think they would be presented.

Mr. NEWLANDS. Your bill provides that after a certain time they shall cease to be legal tender?

Mr. FAIRCHILD. But it would not make any difference in their circulation. They would go more readily without the legal-tender quality than they do now with the legal-tender quality, in times of excitement.

Mr. BROSIUS. Is not that for the purpose of quickening their homecoming?

Mr. FAIRCHILD. It is; but in my judgment——

Mr. JOHNSON. How are you going to get them in?

Mr. FAIRCHILD. The Lord only knows. I should try every possible way, but I do not know any way unless the United States should say: "After a certain time the United States will not redeem them." I know of no way to get them in if absolute confidence is established. I do not believe there is any power on earth that will get them in except refusing to give gold for them. The trouble seems to me to be, in considering this matter, that when we would begin to do it we could not do it.

Mr. NEWLANDS. Now, Mr. Fairchild, we have \$543,000,000 in fractional currency in circulation among the people. By this process of leaving the silver certificates out, retiring the Treasury notes into silver certificates, and adding to that the actual silver dollars——

Mr. FAIRCHILD. That is, if this should be adopted? If this bill should be postponed a few years, apparently that would be the condition of things.

Mr. NEWLANDS. Yes; and in addition to that you will have in circulation among the people the currency issued against the capital of the banks?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Which, however, will not be available as bank reserves?

Mr. FAIRCHILD. No.

THE WORLD'S STOCK OF GOLD.

Mr. NEWLANDS. Now, you say you expect to get this gold from all three of these sources? Did your commission, in the consideration of this bill, enter into any study at all of the existing stock of gold in the world, the current production, the amount of gold consumed in the industrial arts, etc.?

Mr. FAIRCHILD. Not in any minute way or with any particular attempt at precision. Of course we had a general notion of it in our minds, but we did not make any minute consideration of it.

Mr. NEWLANDS. Was your attention called to this fact that the Mint Director's report shows that in 1889 the gross stock of gold in four countries—the United States, the United Kingdom, France, and Germany—amounted to \$2,639,275,000, and that in 1897 the stocks of gold in those countries amounted to only \$2,706,300,000, being an increase during the six years of only \$66,000,000 in gold? Was your attention called to that fact?

Mr. FAIRCHILD. I was familiar with that fact, yes. I was familiar with those reports.

Mr. NEWLANDS. Was your attention also called to the fact that this condition of things exists to-day as compared with 1889, although the production of gold from 1889 up to the end of 1896, according to the Mint Director's report, amounted to \$1,256,000,000?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. These four countries then in that time, out of a total gold production of \$1,256,000,000, succeeded in holding on to \$66,000,000. Will you state upon what you base your expectation that these countries will be able to get any more than that proportion during the next nine years?

DISCUSSION OF THE GOLD SUPPLY IRRELEVANT.

Mr. FAIRCHILD. That question, Mr. Newlands, leads to the parting of the ways of your notions about this whole matter and my notions about it. I do not believe that you gentlemen here, with all your power of legislating, have any control over that question. I believe that the people all over the world have for some reason or other, by their own action, decided that gold shall do their business and settle their balances, and that if any country wants gold, what it has to do is to make the rest of the world believe that it is going to settle its balances in gold, and then it gets all it wants for the transaction of its business, and unless it does that it does not get it. Our theory is—my theory is—that we have got to conform ourselves to that habit of men of the world. If we are going to have, not only gold, but capital generally for the transaction of our business, we must do that. Therefore, I say that we have nothing to do with these questions of statistics of that sort. They are, in my mind, aside from the discussion. I do not mean that they are not very interesting, and all that, but that apparently there are forces of nature at work which take care of this whole thing, and all we have to do is to conform ourselves to those forces, and then our business takes care of itself, and unless we do, we not only do not get the gold, but we do not get the capital in any form.

So, these questions would not weigh upon my mind in making up a scheme of this sort, because I know that when mankind finds that gold will do its work, mankind will find something that will do its work, as it has done in the past and will continue to do, and it is a thing over which laws have no more control than over the equinox. That is my judgment, and that is the reason why I think these statistics and figures are utterly valueless as a basis for determining what we are to do.

Mr. NEWLANDS. We ascertained that the cash reserves of all the banks of the country amounted to about \$623,000,000?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. And presumably that amount was necessary against deposits?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. And that of those cash reserves \$246,000,000 consisted of legal-tender notes, which you propose by legislation now to blot out, and which I am in favor of blotting out if we can find a proper substitute. Do you not think it is reasonable to suggest to the framers of a bill, if it proposed to practically destroy immediately, as some bills propose, or in the course of years, over one-third of the present bank reserves, that some reasonable substitute should be presented for them?

Mr. FAIRCHILD. In my judgment we have presented the reasonable substitute, and the very best one.

Mr. NEWLANDS. Gold?

Mr. FAIRCHILD. Gold.

Mr. NEWLANDS. And that they should show a reasonable expectation of our being able to get the gold?

Mr. FAIRCHILD. Not at all.

Mr. NEWLANDS. You think you can trust to chance on that?

Mr. FAIRCHILD. It is a thing that will come just as surely and inevitably as the time comes, in my judgment. I would stake my existence on it.

EXPANSION OF BANK CREDITS.

Mr. NEWLANDS. My recollection is that you stated the other day that the danger did not come from the expansion of bank paper, but from the expansion of bank credits; and you showed how \$100,000 capital belonging to a bank could be expanded into \$1,000,000 of bank credit in the shape of deposits.

Mr. FAIRCHILD. Under our system.

Mr. NEWLANDS. Under our system. That would be true under the new system as well as the old?

Mr. FAIRCHILD. I spoke of the present system.

Mr. NEWLANDS. In other words, it practically amounts to this—that \$1 would be given the efficiency of \$10?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. But it is not done to that extent?

Mr. FAIRCHILD. Not to anywhere near that extent.

Mr. NEWLANDS. Every dollar in this deposit and check system can be given an efficiency of about four or five dollars, can it not?

Mr. FAIRCHILD. If you get the capital and surplus of these banks and put the two together, you get the efficiency. What I was trying to show was what \$100,000 of the capital of a bank would do if no money was deposited anywhere except that original \$100,000. I wanted to exhaust that subject in order to show what the limit of the efficiency of that \$100,000 was if the check and deposit system was used to its uttermost. I wanted to show that, in order to prove that we need not have any alarm over undue expansion under a bank-note system, under any proposed plan, where the expansion came, say, under the desire of people to borrow and of lenders to lend, the concurrence of those two forces, and that the bank notes were only a form in which this was carried out—one of the forms. That it was a question of the convenience of the borrower that was subserved, but that credits were not thereby expanded to any very great extent. Of course, in a region where they do not use the check and deposit system at all, there would be more expansion in that region by reason of the fact that the bank could give the borrower some notes. There might arise a case, and perhaps there would be a considerable number of them, where the borrower would not borrow at all, and the bank only transfer the thing as a credit on their books, and he would draw against it, so there could be more expansion in some localities with a bank-book system than without it, but I think the total amount of the whole expansion would be a very small percentage. That was my judgment about it.

Mr. NEWLANDS. That is what I understood, that the bank-note expansion would add only about 3 per cent—

Mr. FAIRCHILD. If it were worked out. You remember I only took \$80,000—I did not take it up to \$100,000—keeping the 5 per cent in the guarantee fund and the 5 per cent in the other fund, and taking what was left as the amount with which it could start on the check and deposit system. Do I make myself clear?

Mr. NEWLANDS. Yes.

Mr. FAIRCHILD. Then, you would find that it would work out, under this check and deposit system, with only 80 per cent of those notes put out, so that the total expansion of that bank, against its possible expansion without the note system, was not much more than 3 per cent.

Mr. NEWLANDS. That is what I understood. Now, by the check and

deposit system, as I understand it, each dollar of cash in the bank is given a practical efficiency of four or five dollars. Is it not?

Mr. FAIRCHILD. That depends on the number of times it is redeposited. It is a matter of statistics. You can not tell exactly whether that has come from capital and surplus or from other deposits.

Mr. NEWLANDS. But I am talking now about the relation of cash to deposits.

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. If the total cash in all the banks of the country is \$623,000,000, and the total deposits of the country, leaving out the savings banks for the present, amounts, say, to \$3,000,000,000, you would say, then, that the efficiency of the dollar was increased as 1 to 5, would you not?

Mr. FAIRCHILD. Yes; about 1 to 5.

Mr. NEWLANDS. The people have practically, then, for \$1 of cash \$5 in bank in the shape of deposits which they can use in their exchanges?

Mr. FAIRCHILD. Apparently.

Mr. NEWLANDS. Then, for every dollar of cash reserve that is withdrawn, \$4 or \$5 of bank credit must fall. Is not that the case?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Then it is a matter of great importance, is it not?

Mr. FAIRCHILD. Well, that would not be the case, mathematically, because, as I have shown you, you can work out, if you choose, a result showing considerably more than \$5.

Mr. NEWLANDS. That is true, but I mean to say, if you want to preserve the same relations between cash and deposits, it would work a reduction of from \$4 to \$5 in credit.

Mr. FAIRCHILD. That is true.

EFFECT UPON BUSINESS OF BANK CREDITS.

Mr. NEWLANDS. What is your experience as a banker with reference to these bank credits? What is the effect upon business?

Mr. FAIRCHILD. They raise the rates of interest, and to a greater or less extent check business.

Mr. NEWLANDS. Check business and affect prices, do they not?

Mr. FAIRCHILD. They have some effect on the prices of stocks, often not so great, apparently, as it would seem they might have.

Mr. NEWLANDS. But that depends upon the extent of the impairment of bank credits, does it not?

Mr. FAIRCHILD. Yes, sir.

Mr. NEWLANDS. If the bank deposits, for instance, by this system of liquidation in New York, should be reduced \$20,000,000 within a month, what effect would it have upon business there?

Mr. FAIRCHILD. Oh, it would not have any effect at all there.

Mr. NEWLANDS. What are the bank deposits in New York?

Mr. FAIRCHILD. I forget; but \$20,000,000 would not be any appreciable part of them.

Mr. NEWLANDS. What are the cash reserves of the banks of New York altogether? What are they estimated at?

Mr. FAIRCHILD. I can not carry those figures in my head, but \$20,000,000 would not make any difference.

Mr. NEWLANDS. How about \$20,000,000 of cash?

Mr. FAIRCHILD. A diminution of \$20,000,000 of cash would make a little difference, but not very much.

THE PSYCHOLOGICAL PANIC OF 1893.

Mr. NEWLANDS. During the panic of 1893, what was the diminution of cash there?

Mr. FAIRCHILD. I can not remember that.

Mr. NEWLANDS. Well, that panic was practically caused by the withdrawal of not more than \$40,000,000 or \$50,000,000 of gold from New York, was it not?

Mr. FAIRCHILD. I do not think that panic was caused by the withdrawal of gold at all. I do not know what in the world caused that panic. It has always been a mystery to me.

Mr. NEWLANDS. I think the banks there and the newspapers, too, had the hysterics.

Mr. BROSIUS. It was a psychological panic.

Mr. NEWLANDS. But those conditions are likely to occur again, are they not?

Mr. FAIRCHILD. No; I do not think they are likely to occur again. And the history of the world proves that they appear——

Mr. NEWLANDS. Yes; at times. There is no guarding against such a possibility. Stating it generally, and assuming that the cash in the banks to-day amounts to \$123,000,000, and assuming that those cash reserves are diminished \$200,000,000, what effect would it have upon the deposits of the country?

Mr. FAIRCHILD. Of course the reserves would be reduced by the reduction of the deposits. You can not get a deposit in a bank without it is carrying its own reserve with it. So it is the reduction of deposits that reduces the cash reserve, and not the cash reserve that reduces the deposits. That thing takes care of itself.

Mr. NEWLANDS. A bank panic means that the depositors draw their money?

Mr. FAIRCHILD. It does.

Mr. NEWLANDS. A man has a thousand dollars in a bank. The bank, holding on to \$100, \$200, or \$250 of that money, has a reserve. Then the bank is called upon to pay the whole thousand dollars, and in that way the bank reserve is diminished and the deposits are diminished.

Mr. FAIRCHILD. The deposit is diminished by \$1,000.

Mr. NEWLANDS. And the bank reserve by from \$200 to \$250?

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. So that for every dollar the bank reserves you retire \$4 or \$5 of deposits?

Mr. FAIRCHILD. For every \$5 of deposits you probably retire that amount of cash reserve, because I must insist that the process is through the retirements of the deposits. That is the only way that the cash goes out.

Mr. NEWLANDS. That means a bank panic, does it not, or a stringency or something of that kind, varying according to the extent of the retirement of the deposits; and a run on a bank means merely that the depositors are calling for their money?

Mr. FAIRCHILD. That is what it means.

Mr. NEWLANDS. Very well, then; if the deposits in the banks generally are reduced by runs on the banks, it means that the conveniences of the check and deposit system for transacting the exchanges of the country are diminishing, does it not?

Mr. FAIRCHILD. Yes; the man who draws \$1,000 and puts it in his pocket has not the thousand dollars to check against.

Mr. NEWLANDS. Now, do you think it a wise thing to add to the liabilities of a bank in such a way as to affect at all the confidence in this check and deposit system?

Mr. FAIRCHILD. I should not think so; no.

Mr. NEWLANDS. That check and deposit system is used to a greater extent in this country than in any country in the world, is it not?

Mr. FAIRCHILD. I would like to add a word to something I have said to Mr. Newlands. I am fond of saying that if you want to increase the quantity of your circulating medium of all kinds—money being a part of it of all kinds, and credit, and even unwritten agreements by men, being much the larger portion of your circulating medium—the whole taken together, in my mind, being the circulating medium of a community or a country—if you want that to attain its maximum, you must see to it that the quality of every portion of that medium is maintained at its maximum. If you do not, you will have a shrinkage in the whole, and in every branch of it.

Mr. NEWLANDS. I quite agree with you as to that.

Mr. FAIRCHILD. My impression is this: Take that branch of your circulating medium which consists of credit, pure and simple. Let a business fail, and not only does that portion of the circulating medium which consists of its credit shrink, but all other credits shrink, the amount of the shrinkage being governed by the importance of that failure and its significance; and not only does that portion of the circulating medium which consists of credit shrink, but that portion which consists of money itself begins to shrink, because men begin to hoard it.

Now, then, reverse it. If you begin to impair the quality of that portion of the circulating medium which consists of money, you then produce a shrinkage of the whole circulating medium—first, of money, because men begin to hoard it or send away the best; next, you produce a shrinkage of that portion which consists of credits, because men begin to drag their credits, because they are doubtful as to what their credits will be paid in. Therefore the underlying notion of this commission and this bill was that the one thing that Government had control over was the quality of money. They could not improve it; they could impair it. If they impaired it they diminished the amount of the circulating medium. Our view was that Government had no more control over the quantity of circulating medium, acting on the question of quantity directly, than they had over any force of nature; that they had an indirect control over the quantity by their control over the quality, and that their only control in that direction was to shrink the quantity by interfering with the quality of that which was acceptable to mankind as a whole. That was our theory, and our theory was that under this plan we were giving to this country the maximum of circulating medium which it was possible for the laws of nature and the laws of man combined to give. That was our theory, and that is my theory. I think it is fair to state that, because, as I have said, there is a difference between gentlemen of your school, Mr. Newlands, and mine as to the functions of Government in the whole matter.

[Thereupon, at 4 o'clock p. m., the committee adjourned until the following morning, January 18, 1898, at 10.30 o'clock a. m.]

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 18, 1898.

FIFTH DAY.

The committee met at 10.30 a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Brosius, Johnson, Van Voorhis, McCleary, Fowler, Spalding, Hill, Mitchell, Capron, Cox, Newlands, Stallings, and Ermentrout.

STATEMENT OF HON. LYMAN J. GAGE, SECRETARY OF THE TREASURY, AND OF HON. CHARLES S. FAIRCHILD, OF NEW YORK, A MEMBER OF THE MONETARY COMMISSION AND EX-SECRETARY OF THE TREASURY—Continued.

The CHAIRMAN. Mr. Gage, in reply to the question as to what your scheme was tentative to, and to what you looked as final, you made a statement which is in the record. Upon reading your answer to the question, are you satisfied with it? [See page 143.]

Secretary GAGE. Yes, sir; it might be somewhat extended, but I think the idea is covered in that.

The CHAIRMAN. Mr. Fairchild, you listened to the statement of Mr. Gage; do you agree with his idea?

Mr. FAIRCHILD. Yes.

The CHAIRMAN. Now, gentlemen, I desire to ask a question or two as to a "true bank currency" for the purpose of getting it in the record, so the people reading the record will know what we are talking about. A bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including its currency notes?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Secondly, a bank pays out every dollar it puts in circulation upon the receipt from the person taking it of ample security for its redemption?

Secretary GAGE. That is, in good practice and theory.

The CHAIRMAN. Thirdly, the currency of a bank is redeemed at its place of redemption by its general "current fund"—which are titles to products, and which are in the hands of another bank that acts as its agent in redeeming its notes, and not in actual coin?

Secretary GAGE. What do you mean by "current funds?"

The CHAIRMAN. I will put it differently. In the current funds that it has on deposit in its correspondent bank for the purpose of meeting all its obligations, including its currency notes?

Secretary GAGE. Yes sir; that is true.

The CHAIRMAN. On the other hand, a Government gets nothing in the regular course of its business when it pays out its own currency, and the coin must be constantly carted into the vaults to redeem and carted out in redemption of paper money.

Secretary GAGE. The first part of the statement is correct, that when the Government pays out it does not acquire anything which it keeps to serve as an ultimate redemption for the note it pays out. The note it pays out is in consideration for services already rendered or for goods and commodities already received and used.

The CHAIRMAN. If you will turn to page 175 of the Treasurer's report for 1897 you will find that there was redeemed at the Treasury last year \$113,000,000, total redemption of national-bank notes.

In the second column of the table you will see there was \$33,000,000 of money that was actually sent out by express; that is to say, about one-third. The rest of the redemption was in checks on the subtreasuries sent to banks, as I understand?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Now, it is equipped with funds, either greenbacks or coin; if it was coin redemption, that coin had to be carted into the subtreasury from some source in order to meet the balance of \$80,000,000 redemption?

Secretary GAGE. That would be supplied in some manner.

The CHAIRMAN. Then the answer to my question, of course, is in the affirmative; that is, potentially affirmative?

Secretary GAGE. That is substantially correct.

The CHAIRMAN. The currency issued by a government can not be redeemed in general current funds—which are, of course, the titles to products—for it has none and can get none. The bank must send it specie to redeem its notes with, or the government must get specie by taxation or selling bonds—one or the other method?

Secretary GAGE. I see no other avenues.

The CHAIRMAN. I want to call your attention to the taxes proposed in the bill prepared by Secretary Gage and ex-Secretary Fairchild.

Mr. BROSIUS. I would like to ask if you mean that these propositions embody the theory of banking.

The CHAIRMAN. And the practice.

Mr. BROSIUS. Do you mean to say these propositions express the actual practice of banks always?

The CHAIRMAN. I do.

Mr. BROSIUS. I can not give my unqualified assent now, and at some time I would like some explanation of these propositions.

The CHAIRMAN. Now is the time to record it.

Mr. BROSIUS. You say a bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including currency notes. If that is so, no bank could ever break up, and banks are breaking up.

The CHAIRMAN. I do not mean insolvent banks; I mean sound banks.

Mr. BROSIUS. That is an exception to the proposition.

The CHAIRMAN. It is implied in the questions.

Mr. BROSIUS. In the second place, you say the bank pays out every dollar it puts in circulation upon the receipt, from the person taking it, of ample security for its redemption. If that is true there would be no bad debts. If all the money paid out is secured by ample securities, when are notes discounted by a bank not good at all?

The CHAIRMAN. I am speaking of a sound bank.

Mr. BROSIUS. Then, if it is the theory of banking, it is all right.

The CHAIRMAN. No; it is not the theory only; it is the actual practice.

Mr. BROSIUS. In the average of banks?

The CHAIRMAN. No; I mean to say that where a bank pays out its currency notes it always takes from the man who receives the currency what it considers to be sound securities—it may be mistaken, but what it considers are at the time sound securities—for more than it pays out in currency notes.

Mr. BROSIUS. That is right, but that is a totally different proposition.

The CHAIRMAN. No, sir; the second proposition is that the man himself, as a matter of fact, in good banking redeems himself the notes that he takes from the bank. That would come in a little later, but I put

it in now. Namely, the banks take the time note of the borrower on ninety days, and if its currency is averaged to be redeemed once in every ninety-two days, four times a year, the man who took the currency for the proceeds of the discounted note actually deposits the funds in the bank which redeems that currency. That is not theoretical, but practical, banking. These propositions are absolutely true, and can be found in the active banking of France, Germany, England, Scotland, Canada, and every other country that has a sound and true banking currency; and you can not have sound banking where the public treasury is the redeemer.

SECURITY PROVISIONS.

Now, Mr. Gage, I want to call attention to other facts. In both the bills, that prepared by yourself (H. R. 5181) and that prepared by the commission (H. R. 5855), certain provisions are made to secure the Government against loss and to secure the public against loss in the issue of currency.

I have prepared a table, which appears as Table H, in the pamphlet of "suggestions and tables submitted to the Committee on Banking and Currency by the chairman," etc. [see page 369 of this volume], giving data as to insolvent national banks, capital, claims paid, and difference between the capital and claims paid; that is to say, if every one of the banks that failed had issued currency to its utmost, the differences are shown in that table. I will read only the conclusions. It appears that in twenty-eight years the total losses on currency under the bill prepared by myself (H. R. 3333) could not by any possibility have been more than \$6,437,170, and for the whole thirty-two years \$15,819,851. In the last four years, namely, 1893, 1894, 1895, and 1896, they were \$9,382,681. The average difference between the claims paid and the total capital in twenty-eight years was only \$230,000 in round numbers, and in the whole thirty-two years it was \$494,000, average. In the last four years it was \$1,609,272, which happened to be the years of the last Administration. Now, the largest difference in any one year, as you will notice, was in the year 1893, of \$2,815,764.

I want to call your attention to this fact, that the tax of one-half of 1 per cent, which is provided in the bill drawn by the chairman, on only \$46,000,000 currency, in round numbers, will pay the average deficiency for the first twenty-eight years, and the tax on \$99,000,000 currency will pay the average for the whole thirty-two years, including the last four years.

Mr. SPALDING. What is this difference in the third column?

The CHAIRMAN. It is the difference between the capital of the insolvent banks and the total claims paid by insolvent banks. Furthermore, one-half of 1 per cent on \$322,000,000 would pay the average losses of those four disastrous years, and a half per cent tax on \$563,000,000 would have paid the losses in the most disastrous year of the whole thirty-two. Now, by Secretary Gage's estimate, \$550,000,000 currency would be taken out under his bill in the near future. Mr. Fairchild, as I understand, estimates as much under the commission bill.

Mr. FAIRCHILD. I should think so much, at least.

The CHAIRMAN. Probably more. The amount that would be taken out under bill H. R. 3333 is stated on page 27 of the "Statement, etc." [See page 381.] That is to say, of the \$346,000,000 of legal-tender notes, \$146,000,000; of the \$376,000,000 silver certificates, which silver would be in the cash reserve of banks, there would be \$200,000,000 under that bill; of the \$229,000,000 national-bank notes

of course all would be absorbed, and these notes would be immediately taken out; footing up \$575,000,000. And I estimate that within two years, by new banks established all over the country where under the national banking law now they can not be established, there would be taken out \$225,000,000 more, making altogether \$800,000,000 which would be taken out in the very near future under that bill.

Mr. SPALDING. What do you mean—taken out of circulation?

The CHAIRMAN. Taken of the Government and put into circulation by the banks.

Mr. NEWLANDS. To what bill do you refer?

The CHAIRMAN. I refer to bill H. R. 3333, drawn by Joseph H. Walker. I submit the following statement:

AS TO THE SAFETY OF BANK NOTES.

[See page 369.]

All insolvent national banks, from 1865 to 1897, which did not pay claims equal to their capital:

Year.	Banks.	Amount paid less than capital.
1865.....	0	.....
1866.....	2	\$232,844
1867.....	4	170,392
1868.....	1	33,346
1869.....	2	106,741
1870.....	0	.....
1871.....	0	.....
1872.....	3	87,470
1873.....	5	327,575
1874.....	1	68,332
1875.....	2	402,586
1876.....	7	255,320
1877.....	3	376,266
1878.....	10	690,017
1879.....	5	415,904
1880.....	2	203,977
1881.....	0	.....
1882.....	0	.....
1883.....	0	.....
1884.....	5	153,041
1885.....	0	.....
1886.....	2	46,677
1887.....	2	43,963
1888.....	2	616,993
1889.....	0	.....
1890.....	6	269,411
1891.....	20	1,453,424
1892.....	11	537,892
Amount in 28 years.....		6,487,170
1893.....	36	2,815,764
1894.....	19	1,655,653
1895.....	28	2,700,879
1896.....	24	2,210,985
Total amount in 32 years.....		15,819,851
Amount in four years, 1893, 1894, 1895, and 1896.....		9,382,681
Average difference in the past 28 years.....		229,896
Average difference in the whole 32 years.....		494,370
Average difference in last 4 years.....		1,609,272
Largest difference in any 1 year.....		2,815,764

Tax on currency.	Amount of currency.	Deficiencies.
of 1 per cent.....	\$45,979,600	\$239,896
of 1 per cent.....	98,874,000	194,370
of 1 per cent.....	321,854,400	1,609,272
of 1 per cent.....	563,152,800	2,815,764

Secretary Gage estimates \$550,000,000 would be taken out under his bill (H. R. 5181) in the near future.

Ex-Secretary Fairchild as much under bill H. R. 5855.

The amount that will be taken out immediately under bill H. R. 3333 is stated on page 381 of this volume, as follows:

Of the \$346,000,000 legal-tender notes	\$146, 000, 000
Of the \$376,000,000 silver certificates.....	200, 000, 000
Of the \$229,000,000 national-bank notes	229, 000, 000

Immediately taken out	575, 000, 000
Probable increase by 1890 of	225, 000, 000

Total amount in circulation in the near future..... 800, 000, 000

The CHAIRMAN. The point I make is that "a sufficiency is enough." I once found that in a prescription, and I asked an apothecary what it meant, and he said sufficiency means enough, and enough is enough. Now, as every dollar taken out of a bank by taxation in any form more than is necessary, and accumulated anywhere, must necessarily increase the rate of interest to the borrower by what the banks could earn on it, I want to know how we are justified in imposing a tax more than experience shows would make the currency absolutely safe, which both of your bills do impose, it seems to me.

Secretary GAGE. I would answer that when experience showed it was more than enough, then it would be reduced.

The CHAIRMAN. You stated distinctly that in your proposition you raise several very large sums—about twenty times or thirty times as much as necessary, as I remember it.

Secretary GAGE. About twelve times. I did say if the failed banks, three hundred and thirty in number, I think, had issued circulation in conformity with my proposition and had paid the tax of 2 per cent on the unsecured circulation as required, they would have paid into the Treasury for a guaranty fund \$2,600,000, while the losses would have been a little over \$200,000, or about twelve or thirteen times as much as was necessary; but this was figuring on the past. The proposition involved some new conditions, conditions where the probabilities are the issues will be availed of not by the stronger, well-fortified centers, where banking experience and highest securities perhaps exist, but will be availed of in rural and new communities where things are not settled, and where the risks of banking are the largest in many respects, where they are inexperienced in managing a bank and where a very wide margin has to be provided in view of that fact, and as experience may be gained it is very easy to reduce the conditions in the way of tax. That was my thought. It may be that I went too far.

Mr. FAIRCHILD. That was substantially our notion, that this was not a close prohibitory requirement of 5 per cent which we provided, but it was ample under any contingencies which we thought might arise, and we felt, as Secretary Gage says, that because of a hesitation as to becoming responsible for all banks stronger banks might be kept out. If they did we had provided enough to make the notes perfectly secure. We thought it was well to make it large enough to give perfect confidence and to make it entirely safe.

The CHAIRMAN. Is not the principle upon which every guaranty fund in the way of life insurance, fire insurance, and every other business is made is to keep the premium or guaranty fund somewhere in close relation to what has been the experience of losses in the past?

Mr. FAIRCHILD. But I think every wise insurance company collects in its premiums more than that, so that they accumulate a surplus.

The CHAIRMAN. Do you think there is an insurance company in this country that in any way approaches the depletion of the funds of its patrons to the extent that both of these bills deplete the funds of the bank in extra and unreasonable insurance?

Mr. FAIRCHILD. I would not say it was unreasonable, but I would say it was extra. I would say it was reasonable, in that the reason for it was to give greater assurance, to do away with the natural hesitation and timidity of men as to entering into the system. The tax is not one that would be sufficient to prevent their entering, but it is large enough to give the assurance to the stronger banks that if they do enter there will be no risks of loss to them because of the weaker banks, and the contribution will be greater to take care of it.

The CHAIRMAN. Is it not a fact that the weakest banks, and the banks you describe as weak under the present system, which hold the same relation to the total of banks, have been the banks which failed under the existing system, so that we can reason safely from them—and then, again, this system has become old; this system is administered better to-day than it was when it began, and the experience under existing banks would be likely to show a larger relative loss in the past than we may expect in the future.

Mr. FAIRCHILD. You think the losses will be larger in the future?

The CHAIRMAN. No, sir; I think losses will be smaller. The loss will probably be less by the insolvency of banks as business settles down, and it will be less in the next thirty years than in the past thirty. Do you not think so?

Mr. FAIRCHILD. I think it will be less relatively, and under this bill of the commission you know that 5 per cent is to be returned to the bank unless there is circulation. You understand that?

The CHAIRMAN. While it lives the bank loses three-tenths of 1 per cent interest on its total capital, under your bill?

Mr. FAIRCHILD. And the interest which has been earned upon it by its investment remains as a permanent addition to the fund. They do not get that back. So far as that, we have made the security ample in introducing a system like this, which, although not at all new, is novel to this generation. We thought it better to err on the side of great security. When experience demonstrated what we believed to be the wonderful security of it, why, then would be the time to call for a reduction of the guarantee fund, and of course we appreciate that there should be no greater amount in that than is necessary for the purpose for which it is created.

Mr. COX. I understand in your bill a 5 per cent safety fund is provided—I will call it a safety fund for the present—and in the Secretary's bill there is a 2 per cent fund. Am I right that the commission's bill goes a step farther, and if that fund should ever become exhausted—of course, I am not going on the argument of whether it will or will not—but if it should become exhausted, your bill provides that you can then assess the banks and make it good, while, as I understand it, the Secretary's bill stops at the 2 per cent, without any power of assessment if the fund should be exhausted. Am I correct in that, Mr. Secretary?

Secretary GAGE. Yes, sir.

Mr. COX. So there is the main difference in the pending bills?

The CHAIRMAN. You will remember there is Mr. Fowler's bill and my own.

Mr. COX. I am trying to get the difference of these two now. Would you be willing, Mr. Secretary, to incorporate in your bill the proposition

for assessment upon the banks to make good the default in case the 2 per cent was not ample and sufficient?

Secretary GAGE. Before I answer directly that question I would like to say, in considering the percentage of this safety fund, which in the case of the commission's bill, you say, and say correctly, is 5 per cent, while under the bill called mine it is 2 per cent, that the risks which are required to be secured against are very different in the two bills.

Mr. COX. That is very true.

Secretary GAGE. And they would have to be examined in reference to the measure of risks that the two bills involve in the question of bank-note issue. Now, as to the proposition to hold these banks in a mutual responsibility for the deficiency, perhaps it may be necessary to do that, but it would be unfortunate, if necessary, because, in my opinion, it would operate to keep out those that we ought to have in—the most conservative. A banker, quite contrary to public opinion, stands alone. He wants to manage his own business and he does not want to manage that of anybody else—I mean his neighboring bankers—and he does not want anybody else to manage his. Under the national law he is willing to have an examination twice a year and a report, and be obedient to discipline, but he does not want to be responsible for other banks and their liabilities. This liability would operate to force banks to make up the losses that would be occasioned, in his opinion, by somebody else's act, not his own, which would be objectionable to many and would operate, to a degree, to restrict, as I have already remarked, the functions of bank-note issue of those who are the best calculated to exercise it. Nevertheless, as to the tax of 2 per cent imposed by me, or as to this feature of mutual liability, those are questions I would be quite willing to leave to the opinion of the majority of this committee after you have given the full study you are going to give to it and are giving to it, because it is a matter of mere estimate and opinion, and my wisdom will not be any better than yours when you get through studying the question.

Mr. COX. In that connection your opinion would be that if one bank was forced, or all the banks were forced, to guarantee each other it would become a serious objection to many banks and many men going into the system?

Secretary GAGE. I think so.

Mr. COX. They do not want to go security for banks or people they do not know anything about?

Secretary GAGE. That is the principle.

CHANGE OF SYSTEM SHOULD BE GRADUAL.

Mr. FOWLER. Mr. Gage, is it not your opinion that in entering upon a system of credit currency in this country, so far as we may be able to ascertain the amount of secured currency that would be in normal use the year around, it would be desirable to have that much?

Secretary GAGE. When you say "secured," you mean secured substantially under the present methods?

Mr. FOWLER. Yes, sir; bond secured, and temporarily, I mean.

Secretary GAGE. I agree with you that a change from a circulating system such as we have now, secured by the deposit of bonds with a public trustee, to a system where no such deposits are required, would be a radical change, so radical perhaps as to excite fears; and that it

would be better to move off from this basis on to the basis of unsecured circulation gradually.

Mr. FOWLER. Would it not, then, be a desirable process of evolution to start with the amount of secured currency that was equal to the amount of normal currency required, and retire one-fourth of that amount in 1905, and another one-fourth of that amount in 1910, and another one-fourth of that amount in 1915, and the remaining one-fourth by 1920; would not that process of evolution be desirable in passing into a system of credit currency?

Secretary GAGE. I think some such system of movement would be desirable. Whether you can arbitrarily fix it now as to dates and percentages is another question. I doubt it. My propositions, as you perhaps remember, involve the right of a bank to take a certain amount of circulation secured, as at present, by bonds, and then issue 20 per cent of its capital in unsecured notes. That is about as far as I think I would be prepared to go at present. As the Government debt is reduced, as these unsecured notes are amply provided for, and as the burden of providing public bonds will perhaps grow greater and greater, and the advantages of unsecured notes be more and more realized, then a modification of the law could be made, enlarging the scope of the unsecured circulation of the banks, and so we could find our way from the present system to the proposed system in the light of future experience and not try to accurately determine it now in advance. That is my point.

Mr. FOWLER. In the light of the facts of the 10 per cent tax on State-bank issues, would you not be able to so weight the credit currency to be issued, by a graduated tax, as to absolutely prevent an undue or dangerous amount of issue?

Secretary GAGE. I can not say just at the present moment whether it might or not.

Mr. FOWLER. Well, the 10 per cent tax on State issues prohibited them?

Secretary GAGE. Absolutely prohibits them.

Mr. FOWLER. An 8 per cent tax would absolutely prohibit them?

Secretary GAGE. Yes, sir.

Mr. FOWLER. A 6 per cent tax would absolutely prohibit note issues except in times of panic; would it not?

Secretary GAGE. Yes; but where you get just to the point where it would properly permit and properly prohibit, that is another question.

AMOUNT OF SECURED AND CREDIT CIRCULATION.

Mr. HILL. Your bill arbitrarily fixes the secured circulation at four-fifths of the total amount and the credit circulation at one-fifth?

Secretary GAGE. Yes, sir.

Mr. HILL. The Monetary Commission bill absolutely fixes the secured circulation at 25 per cent of the capital and an option of credit circulation beyond that. Now, I want to make this suggestion, and I ask your opinion upon it, whether it would not be desirable to rather compromise both of those propositions by making it necessary that they should take 25 per cent of secured circulation and make it optional with the bank to take more secured circulation if they chose to do so, and so gradually come into the credit system, rather than be forced by the action of the law. Leave that option upon them for the future—to go beyond the 25 per cent of secured circulation if they desired to do so and were better situated and had a fear in regard to the credit system

which you have just suggested. It undoubtedly exists in the minds of bankers, especially the larger ones.

Mr. COX. Your point is that going beyond the 25 per cent would be optional?

Mr. HILL. Under the terms of the Monetary Commission bill. I should prefer to leave it wide open and have it optional to them to take either, as they please; but take the commission bill at 25 per cent, would you not think it perhaps a fair compromise to leave the option to the bank, with this proviso, that if they take the additional secured circulation, upon that secured circulation they should not be required to deposit a guaranty fund or be subject to the tax? Do you not think many of the banks, especially the larger banks, would accept such a proposition much more readily than the compulsory terms of the other bill?

Secretary GAGE. I am inclined to think they would, and I think the suggestion is a very good one and entitled to the most serious consideration.

Mr. FOWLER. Do you not think, inasmuch as the circulation in the past has been taken out very largely by country banks, even up to 75 per cent, approximately there ought to be a difference with regard to the percentage of circulation that the banks in the country should take out as compared with the banks of the cities, or the privileges they should have to take it out?

Secretary GAGE. Well, I should hate to see any discrimination made against any section or bank because of its size or its locality.

Mr. FOWLER. Is it not true that if the banks were allowed to take out any amount of circulation up to the par of the bonds, as Mr. Hill has just suggested, in all human probability the banks in the cities would at once seize the bonds, if there were any profit in them, and hold them away from the country banks, and is it not a fact that the secured currency they issue is wanted in the country and should be reserved in a larger proportion to the country than to the cities?

Secretary GAGE. That is secured circulation?

Mr. FOWLER. Yes, sir.

Secretary GAGE. I do not think the secured circulation is worth a cent to the country in any form at all.

Mr. FOWLER. If there is any profit in it?

Secretary GAGE. It may be a profit to the banks, but we are not considering them—at least I am not trying to; I am considering the people.

Mr. FOWLER. As a matter of fact, if a bank is profitable in the country it can afford to lower the rate of interest more than if it was unprofitable, and therefore it is the people in the country I am seeking to protect as against the great cities.

Secretary GAGE. Yes; it would be an indirect benefit.

Mr. NEWLANDS. Mr. Secretary, Mr. Fowler in one of his questions used the term "normal circulation," What do you understand by that?

Secretary GAGE. I do not understand anything by it. I do not know what is normal and I do not believe anybody does or can tell; the law of supply and demand operates, and that determines what is normal.

The CHAIRMAN. And whatever that shows is taken out is normal?

Secretary GAGE. I think so.

Mr. FOWLER. Then it does mean something?

The CHAIRMAN. It means that whatever circulation averages to be taken out is thus shown to be normal.

Secretary GAGE. With that correction of my expression as to what the word meant, I should say yes.

ELASTICITY OF CIRCULATION.

Mr. NEWLANDS. Is it expected that the circulation that these bills call for will have the element of elasticity?

Secretary GAGE. It is expected it will.

Mr. NEWLANDS. As a matter of fact, is not this bank circulation practically an extension of the check and deposit system?

Secretary GAGE. Which system; the proposed one?

Mr. NEWLANDS. Under these two bills. Not secured circulation, but unsecured circulation?

Secretary GAGE. That is what it is.

Mr. NEWLANDS. A practical extension of the check and deposit system?

Secretary GAGE. Substantially; a bank-note issue by a banker is nothing more than a memorandum check which will draw money from the bank at any time at the pleasure of the holder.

Mr. NEWLANDS. It is a check payable to bearer?

Secretary GAGE. Yes, sir; it is, substantially.

Mr. NEWLANDS. The check and deposit system, I believe, requires a reserve to the extent of from 15 to 25 per cent. Why should those reserves in the case of the bank circulation, which is a practical extension of the check and deposit system, require a reserve of only 5 per cent?

Secretary GAGE. My bill requires a reserve of 10 per cent.

Mr. NEWLANDS. How is it with the Monetary Commission bill?

Secretary GAGE. It requires 5 per cent and fixes a guaranteed deposit of 5 per cent. It ought to be stated, further, that in the case of country banks, where 15 per cent as a reserve is the rule as against deposits, only two-fifths of that sum must be in money in hand, and the other three-fifths may be loaned out, not to individuals, but substantially loaned by deposits put in some other bank.

Mr. NEWLANDS. In reserve cities only?

Secretary GAGE. In reserve cities only. A deposit of 10 per cent of the circulation in absolute cash, in my opinion, compares favorably in the element of strength with the reserve of the present system itself as applied to country bank deposits.

Mr. NEWLANDS. As to the country banks, practically they are required to keep in actual cash in their banks only about 6 per cent as against deposits?

Secretary GAGE. That is about the way it figures out, I believe.

Mr. NEWLANDS. Now, do you not regard it as a weakness in the system to give the country banks, where, as I understand you to say, inexperience is more likely to prevail than in the city banks, a less assurance as to reserves than the banks in reserve cities are compelled to reserve?

Secretary GAGE. No, I do not; because there are some other elements to consider. A city bank, what we call the ultimate reserve city bank, is filled up with large liabilities to country banks, and has to be ready to respond readily and quickly to demands which may come into it from any direction from a general unsettled condition, and they ought to have in hand a large amount of cash reserve. On the other hand, you take the small country banker. His relationships are limited. He knows all his people. He can see them all in twenty-four or forty-eight hours if he wants to. They know him, and whether it be an incorporated bank or a private bank, they are dealing with him on the point

of his character very largely, and, except in extreme cases, they can not likely get up any sudden or large demand on him at any one time.

Mr. NEWLANDS. But you frame a banking bill with a view, do you not, of meeting crises?

Secretary GAGE. Yes; all those that can be ordinarily anticipated.

Mr. NEWLANDS. Do you or do you not regard it as good judgment to permit the country banks to deposit three-fifths of their reserves with the reserve city banks?

Secretary GAGE. Well, I have doubts on that subject. My mind is not clear. It tends to accumulate money in the cities.

Mr. NEWLANDS. And promotes speculation there, does it not?

Secretary GAGE. I think it does; but while I believe in the largest liberty of action consistent with safety, and that restrictions ought not to be imposed more than necessary, and experience of the matter does not show that it is charged with very great danger—

Mr. NEWLANDS. Well, during the several crises which we have had during the past ten years there were a number of instances in which the city reserve banks have been unable to return to the country banks the reserves to which they were entitled and which they required to meet emergencies.

Secretary GAGE. There have been several exigencies where it was feared that some banks in these reserve cities might not be able to remit currency directly to their correspondents and depositors in the country, and it was felt generally that the demands thus made for currency, if met by the stronger banks, would so cripple the bank in performing its general function toward the commercial and industrial community that the suspension of currency shipments was advisable, and on several occasions, in such emergencies, the banks of New York and other cities have refused to meet the requests for currency, and have taken out what they have called "clearing-house certificates" to settle balances between each other, and thus put themselves in a position where they could meet all drafts made upon them by their correspondents and customers through the clearing house, and at the same time serve the business community and not sacrifice it in order to get currency to send into the country.

SITUATION OF COUNTRY BANKS IN A CURRENCY FAMINE.

Mr. COX. Mr. Secretary, this money being paid in the city, and the reserves being held there, one of the natural tendencies of it is to concentrate the money at those places, is it not?

Secretary GAGE. Yes, sir.

Mr. COX. When it offers, in addition to that, to pay interest upon daily balances on the funds so deposited there, that is another matter which draws it to those centers?

Secretary GAGE. That is no doubt an influence.

Mr. COX. Now, take a country bank situated, say, quite distant from the reserve cities, and under the law it has this money in this reserve city, and in addition it has to keep its accounts there for other purposes. Now, if the bank at the reserve city or center refuses to furnish the currency upon the check of the country bank and returns it to the country bank, is not that almost certain destruction to the country banks?

Secretary GAGE. No.

Mr. COX. How will it escape when it can not get its own money?

Secretary GAGE. The banker can say to his customer, "I have not

any currency; I will give you a draft on New York for it if you will take it."

Mr. Cox. In some of the country banks a man would almost just as soon have anything else as a draft on New York; he wants the money. The moment one depositor demands the money he is followed by a hundred, and the bank shuts its doors.

Secretary GAGE. I have been situated as a banker in the same position of which you speak—of a bank having hundreds of thousands of dollars to its credit in New York when it could not get currency on its orders; but those balances have been made available, and yet I have continued to supply currency to everybody who wanted it, sometimes at a considerable cost, but we satisfied everybody.

Mr. Cox. Mr. Secretary, just direct your mind to this one point: I am talking about a country bank that has no connection with the clearing house at all; its business is done directly with the city which keeps these reserves and these inducements are held out to carry its money to the centers and get pay for it. Can you devise any plan so that when the currency is demanded by the creditors of a little country bank it is possible for it to stem the current when it can not get the money loaned? You can not force your customer to take a draft; you can not force him to take anything but money. I went through three panics and observed these country banks.

Secretary GAGE. Take Chicago. Four or five times Chicago banks, in relation to the New York banks, have been in the relation you speak of and which I have just described. Notwithstanding all the country banks having relations with these Chicago banks, their orders for currency, so far as I know, were always supplied, and the country bank itself, having perhaps money in some other city which it could not secure, as has been the case, has never within my knowledge closed its doors by reason of inability to get that currency. As I have said, they know the people and the explanation they make is reasonable, and, unless a man wants money for pure hoarding, drafts on one of these cities that issue these clearing-house certificates perform any function the greenback will in the discharge of debt or in the purchase of commodities. Now, if you will let me go on a little I would illustrate this. For instance, Chicago got money under those circumstances and they could not get it from their correspondents in New York. They brought it from London. They brought it by buying sterling bills and importing the gold right against them from London. They brought it right through New York, only they did not bring the actual gold, because the larger part of it stopped in New York, and we traded with the Government and took the Government's currency and gave them the gold. And while, theoretically, Mr. Cox, the embarrassment which you picture of the possible suspension of payment by country banks is all well conceded, practically they get along with it, and while it is a forced and arbitrary action on the part of these reserve city banks in taking these clearing-house certificates, it is, in my opinion, an act which operates and has operated to the great relief if not the salvation of commercial and industrial interests in the United States from time to time.

Mr. Cox. I think I fully appreciate what the Secretary states, as I went through this experience some four or five times in these little country banks. Now, does not the difficulty arise here, Mr. Secretary, that your reasoning for Chicago, a great commercial city and in close connection with other great commercial cities, and the points you make in behalf of that system applying to Chicago, lose all their force and

effect when you take the rural bank which has no connection at all with the great commercial cities? Our deposits are generally in small amounts, and are scattered among a great number of men, but the very moment one of them comes to the conclusion that he will draw out his deposit it generally influences a dozen, and that produces a rush upon the country bank. Now, I know we would make application for the money that was due us in New York, and we would be answered with the proposition, "We can not furnish you any currency," as happened in the last crisis we went through. That being true, is not the policy a bad one to permit these reserves to be held in centers—reserve cities, as you call them—and is it not worse to permit those banks in the large cities to draw the currency in there by the very doubtful process of paying interest upon the deposits? Is not that a very dangerous precedent for the rural banks and dangerous to their interests?

Secretary GAGE. In reply, I will say, first, that there never has been a time yet when the country banks could not get currency in New York.

Mr. Cox. I beg your pardon—

Secretary GAGE. They could buy it on the street at a premium with checks on their bank where they had balances at rates ranging from one-half of 1 per cent premium to as high as 3 per cent premium. There was always a question of choice with the country banker. There was a question of choice of declining to pay his depositor who wanted currency or to get it by paying under those circumstances a penalty involved in the premium for it; but it is not right, under such circumstances, that a banker should be obliged to pay a premium for the currency—we will all admit that.

Still, since he had probably enjoyed for a period of ten, twelve, or fifteen years the interest on his money at about 2 per cent per annum in the city bank, which owed him at the time, we are supposing, and, although it could not pay in currency, he might even under such circumstances consider it to be money in his pocket to draw interest on a given fund for twelve, fifteen, or twenty years, and then in some emergency be obliged to pay 2 and 3 per cent premium for such an amount of currency as he absolutely needs. The general question as to the policy of allowing this accumulation in the centers is a very large question. As I said a little while ago, I think in answer to Mr. Newlands, my mind is not positively clear on it. It has objections and it has advantages, and I do not think I am prepared to state now, without a wider consideration, what would be just the best way to fix that feature.

Mr. Cox. Your mind has approached this great question—and I regard it as an exceedingly great one—the concentration of the money at the great centers; but your mind is taking in the entire scope of the country and the business of the country?

Secretary GAGE. Yes.

Mr. Cox. Now, I want to ask of you, standing in the position of a country banker, does it not work directly against the interest and success of that class of banks?

Secretary GAGE. No, sir; I think it works for their interest.

Mr. Cox. One more question and I am through. You drew my attention to the fact that when these reserve cities and centers which had the money of the country banks on deposit refused to pay it to the country banks, the country bank could go on the market and buy circulation. What would it buy with?

Secretary GAGE. With its own check on the bank which owed it money in New York.

Mr. Cox. Let me call attention to the fact that a bank having refused to cash the bank's own check, it is just as difficult to trade off to another one.

Secretary GAGE. No; you are mistaken.

Mr. Cox. I am talking about satisfying the man who is at home; I am not talking about the man in the city. He comes in and demands his money, and I, as a country banker, say "Here, I will give you a check on New York." "Well," he says, "I do not know whether they will pay it or not," the result of which is that it is as hard to pass a check on the bank in New York as an individual check. He would rather take the individual check. And what could you say?

Secretary GAGE. I say the country banker could give him the currency if the man does not want the check, provided the country banker is willing to pay 2 or 3 per cent for the currency in New York.

Mr. Cox. Your idea is that the country bank can get the money on its checks and then give it to the customer?

Secretary GAGE. Yes.

Mr. Cox. Here is a matter of experience, Mr. Secretary. A bank in my district got in that shape, and the president went to New York and not only offered his check upon his own assets in the bank there for currency, but he offered any sort of collateral security and his own check against his own money, and he could not get any currency.

Mr. SPALDING. I want to ask one question. Is not the refusal of a bank to furnish depositors with currency an actual act of insolvency, in the meaning of the national-bank act as you understand it?

Secretary GAGE. No, not absolutely; it is not an actual insolvency. The refusal to redeem a note is an actual act of insolvency, and a receiver can be immediately appointed, but whether I owe you money or not is a question the court will pass on first.

Mr. SPALDING. The question of the deposit being settled, and there being no discussion about it, the refusal to pay or inability to pay would be an act of insolvency within the meaning of the national-bank act?

Secretary GAGE. I think the refusal to pay money on a judgment would be, but I do not think the law covers the point you mention.

Mr. HILL. The law permits national banks to keep reserves in reserve cities, but it is entirely optional, is it not?

Secretary GAGE. It is optional whether they keep the funds, but it is allowed by the law.

Mr. HILL. It is not compulsory?

Secretary GAGE. Not at all.

Mr. HILL. If there was no law upon the subject would not the demands of business require country banks to keep reserves in order to supply their customers with exchange?

Secretary GAGE. They would have to keep reserves, and they would probably do as they do now, because they are acting within their liberty now and would act within their liberty then.

Mr. HILL. Is it not a fact that country banks do not leave deposits in reserve cities when they have a more profitable use for them at home, and the whole affair is practically controlled by the demands of business?

Secretary GAGE. Their average balance in these reserve cities is probably larger under the influences of which you speak. The law requires them to keep 15 per cent of the liabilities somewhere, and they choose to keep a large part in New York.

Mr. HILL. Simply because they get, in some cases, a small interest paid on it?

Secretary GAGE. Yes, sir.

Mr. HILL. In your experience they do not keep that money there simply because of the small rate of interest they are getting, if the demands of business will justify a more profitable use at home?

Secretary GAGE. They do not keep any more than the three fifths the law permits them to keep if they can do better with it at home.

ELASTICITY OF CIRCULATION.

Mr. HILL. In regard to this question of flexibility Mr. Newlands asked you about, do you think that a secured currency within a limit fixed is any less flexible than a credit currency fixed at the same limit? Perhaps I had better elaborate a little. The national bank to day pays 1 per cent tax upon its circulation. It is paid only while the notes are not in the actual possession of the bank. Every one of these bills here provides a less tax than that. Is not this an inducement to the national bank to make its currency outflow and inflow more flexible than any provision of any of these bills with a smaller tax? Is not the question of flexibility determined entirely by the fact of a limit being put on the circulation, whether secured or unsecured?

Secretary GAGE. The flexibility is determined, I think, by two things—first, the limit, and next, the profit in putting it out. If there is a profit they will put it out, and put it out to the limit the country will take, whether it be secured or unsecured. If there is no profit they never will take it up to the limit, because there is no motive.

Mr. HILL. The question I want to get at is, whether it is not the limit that determines the flexibility, rather than the mode of handling the circulation if the limit in both cases is fixed, whether secured or unsecured?

Secretary GAGE. The limit is one thing and the motive is another. You must have a repressive and an affirmative motive, a motive to issue and an influence to prevent.

Mr. HILL. The large amount of discussion on the question of flexibility attributed to purely credit issue is rather a question of the credit issue being unlimited, or having the limit beyond the demands of the country or within the demands of the country, and not so much as to the character of security, whether secured by bonds or assets?

Secretary GAGE. I think you are quite right.

Mr. JOHNSON. Do I understand you to say that an elastic currency, one which would expand and contract with the varying needs of trade, is as readily obtained on bond security as under some other form of security—as under security issued against the assets of the bank with a guaranty fund?

Secretary GAGE. If you arrange that bond security so as to make the same motive for banks to take circulation, it will tend to be taken out and be used to the extent that the law will permit, or the avenues of circulation will absorb it. Now, I do not say that the secured circulation is as useful as the unsecured; that is another side of the question. I do not think it is useful to tie up capital needlessly.

Mr. JOHNSON. That is the point I wished to develop.

The CHAIRMAN. I want to say to Mr. Fairchild and Secretary Gage that the bill prepared by myself, H. R. 3333, meets exactly the conditions that you have suggested ought to be met in the banks you have designated in a proper banking system whenever you can get it, and I will ask you gentlemen to question me upon the point if you can find by an

examination of the bill that I am not correct. You are here as experts. Please report if that statement is not entirely correct. At some subsequent hearing you can ask the questions.

TRUE BANK CURRENCY.

How can a system of issuing currency which is called a "true bank currency" all over the world and which is issued in every country except this—and it was issued in this country, in New England, under what is called the Suffolk system and was as safe as any currency that has ever been issued—a "radical currency;" how could you speak of the currency that you indicate in the bank you speak of as a "proper banking system for us to have" as a "radical currency?"

Secretary GAGE. I said I considered it a radical change from our present system; that is the only way I consider it to be radical.

The CHAIRMAN. You spoke of the tax to be assessed under the commission bill to make up the losses of banks, and stated that banks would shrink from going into the system. You mean by that, an unknown liability to them, although even an improbable liability, men will shrink from in banking as from a title to real estate or anything of that kind in any way defective?

Secretary GAGE. That is the idea.

The CHAIRMAN. That is to say, the opinion is that "better is certain bad than doubt and dread of worse."

Secretary GAGE. That is the way it would operate in the minds of some.

GUARANTY FUND FOR DEPOSITS.

Mr. JOHNSON. I want to ask a question which I think is somewhat allied to the expression you have just made use of. Several of these banking and currency bills which are before us for our consideration containing provisions for a guaranty fund to secure deposits. I think I gather from your statement here about what your opinion is, but I would like to have you state what you think of that phase of the subject.

Secretary GAGE. Well, I have a great respect for the gentleman who suggested that, but I believe the final effect of such a system would be a great deal more disastrous than the present one.

Mr. JOHNSON. Mr. Fairchild, what is your opinion on that subject?

Mr. FAIRCHILD. I have not any very matured opinion on that subject. It is an entirely new subject to me. From reading the bill, it seems to be an entirely voluntary plan on the part of the banks to put up some money, 5 per cent of its own, which acts as an insurance for its deposits, and the bank does it or not, as it chooses. There is nothing to prevent a bank from doing that now if it wants to do so. It can put any amount of money it chooses in the hands of trustees for certain purposes.

Mr. JOHNSON. Of course I am speaking of a compulsory system. I am asking your opinion in regard to that.

Mr. FAIRCHILD. I should not think a compulsory system would be an advantage.

Mr. JOHNSON. Much, Mr. Secretary, which you stated in regard to a safety fund requiring to be constantly replenished to secure circulating notes would seem to me to apply to the question I have asked.

Secretary GAGE. It would apply.

Mr. JOHNSON. I have heard from many sources objections to chang-

ing from bond security for circulating notes upon the ground that under that system the margin saved from failure is all applied to pay depositors, whereas the very moment you dispense with bond security you take out of absolute pledge assets which might be wasted. In the minds of some people this has been a considerable objection to a safety fund system of securing circulating notes.

Secretary GAGE. That is the natural objection that would strike the mind of the public, and it influenced my mind to make the supposed menace to the depositor very small to begin with, until experience showed it was not much of a menace at all.

Mr. JOHNSON. That is, you mean to make the issue—

Secretary GAGE. Of unsecured notes very small.

Mr. HILL. In a circulation secured by bonds at their full market value, so that they can issue dollar for dollar what they put into the bonds, and with the same freedom from restriction as to issue and withdrawal that pertains to the money, are not they exactly as flexible as credit issues and only fixed in respect to flexibility by the limit?

Secretary GAGE. It strikes me that as to the simple item of flexibility, I would answer yes.

SUFFICIENT GOLD SUPPLY.

Mr. HILL. A long series of questions has been asked both of you gentlemen concerning the possibility of this country securing gold enough to carry into effect any of these propositions of currency reformation. Assuming that which I claim to be a fact, that the production of silver from 1792 to 1850, being the time of the establishment of the Mint of the United States, up to the discovery of gold in California, was \$1,328,000,000, by the report of the Director of the Mint, or an annual average of \$23,000,000, and that the production of gold for the same time was a total of \$518,000,000, an annual average of \$9,000,000, and that from 1850 to 1897 the production of gold had increased to \$6,228,000,000, or an average of \$132,500,000 a year, and during the same time the production of silver aggregated \$4,652,000,000, or an average of \$99,000,000 a year, and that the production of gold alone during the year 1897 amounted to \$240,000,000, which was \$43,000,000 more than the total of gold and silver produced in 1873—in view of these facts, have you any anxiety whatever as to the ability of this country to secure all the gold that business demands require under any of these banking systems?

Secretary GAGE. I have not; no, sir.

Mr. HILL. Have you, Mr. Fairchild?

Mr. FAIRCHILD. No; I have not.

Mr. HILL. Mr. Fairchild, do you think there would be any difference between the flexibility of your secured circulation and the flexibility of your credit issues under your bill?

Mr. FAIRCHILD. I think the flexibility is least under the bond-deposit system.

Mr. HILL. I mean if the limit is the same in both cases.

Mr. FAIRCHILD. If the limit is the same, as I tried to explain the first day, it is this: In the first place, the party who is to issue the circulation makes an investment in something not immediately connected with his business.

Mr. JOHNSON. You mean the bond security?

Mr. FAIRCHILD. I mean in the bonds. He does that in anticipation of the possible needs of his clients. He may or may not do it, so

that in the initiative of the plan he is not in the same free and natural position that he would be when a man who wanted to borrow notes came to him with bills of lading, or whatever they might be, which he would take as security for the notes which he gave to the man. Therefore, I think it is fair to say that there is an element of greater flexibility at the very outset of the transaction. When the business for which the notes have been loaned is performed, and the notes have come back for redemption to the bank, the bank has on hand 2 per cent bonds, in which it has invested. The neighborhood does not want these notes, for it has neither butter, nor cheese, nor corn, nor cotton to sell at that immediate time. But this capital is invested at a very low rate of interest. The temptation is to use these notes in something that is not connected with the neighborhood and the ordinary business of the bank, in order that the investment of capital may produce a greater interest.

Mr. HILL. Any less temptation in the credit note?

Mr. FAIRCHILD. Oh, yes.

Mr. HILL. Why?

Mr. FAIRCHILD. Because its capital has entirely come back; the whole thing is canceled, with the credit note. He has not an investment of capital in anything whatever, so when the time comes around for the use of these notes again for the purposes of the neighborhood they are less likely to be available than they would be if there had been no required investment in something apart from the business of the bank. Therefore, it seems to me it is fair to say that under any trusted note there is a less ready response to the demands of the customers than there is under a system without that security.

Mr. HILL. Assuming that to be true under the present national bank law, where circulation is only issued to 90 per cent of the par value, and the 10 per cent difference is locked up in an unprofitable investment, is not the condition entirely different where the issue is up to the market value of the bond?

Mr. FAIRCHILD. I think it is somewhat modified, but I think the same objection remains, except that of course you have made a condition of things whereunder the issue of bank note circulation is more profitable.

Mr. HILL. Is there any difference between that note being secured by the actual deposit of the bond to its full market value and the same amount of capital being deposited in the reserve of a bank at the same rate of interest, when it is not in use otherwise?

Mr. FAIRCHILD. But perhaps it would not be done in that way. At any rate—

Mr. HILL. Any good banker would do that.

Mr. FAIRCHILD. At any rate, when the time comes the banker will be in the position to use that money in the way that he thinks is most profitable and chooses at the time. He will not be restrained by law into a certain course of rigidity. That is my theory about it, and I think if you will figure the transaction out you will rather demonstrate it to yourself.

MOTIVE FOR ISSUING BANK NOTES.

Secretary GAGE. I have heard the explanation and the statement just made by Mr. Fairchild; so, if I understand his criticism, it is unfavorable to the use of bank notes secured, as compared with unsecured bank notes. I agree, generally, with his criticisms. I, however, still maintain that there are two influences operating to induce the banker to issue notes. The first is the motive of profit. That is his only rul-

ing motive, the motive of profit, and he will issue just as many under a deposit of bonds as he will under any other, if you make it sufficiently profitable to induce him to do so, and he will issue just as many as the law will let him. I made a similar answer to Mr. Hill's inquiry, but I did not intend to cover any more than that simple ground. I did, however, hasten to say that this exercise of bank-note issue function by a banker, under a system of security, while in my opinion it gave motive enough and would be found elastic, would be found to involve in it sacrifices of the interest of the community which would be much better guarded, protected, and served if the banker by an equal motive was issuing notes without first pledging his capital in the form of bonds as security therefor.

The CHAIRMAN. When a bank issues currency against its assets to the limit of the capital that it has the right to take out, it secures currency to the amount of its assets, puts it in its vaults, and keeps out what it well can, having the currency always there to put out whenever there is a call for it and they can get it out. It has, in addition to that, the capital, which is not depleted by a dollar in loaning currency.

Secretary GAGE. That is right.

The CHAIRMAN. If they have to put up bonds they can buy at par and issue currency to the amount of the capital; it absorbs every dollar of their capital.

Secretary GAGE. That is right.

The CHAIRMAN. Then, if a bank can make loans of its deposits to an amount sufficient to make money enough to pay its expenses of every name and nature and they just balance (assuming that they can keep out all their currency)—then they can make loans at one-half the rate of interest they could if the capital was used up to take out currency secured by bonds.

Secretary GAGE. That is substantially true.

The CHAIRMAN. Now, every dollar of currency, where the currency is issued against assets that remain in the vault of a bank, remains there without the slightest loss to the bank, except the printing of it.

Secretary GAGE. That is true.

The CHAIRMAN. I find in the bill prepared by Mr. Fowler (H. R. 50) that the total profit on currency taken out under that bill for the first twenty-five years, assuming that 20 per cent of it remains in the vaults—and you have testified it is impossible to keep all the currency out—

Secretary GAGE. The Canada banks can keep out about 50 per cent.

The CHAIRMAN. But there is no loss on that they do not keep out?

Secretary GAGE. No.

The CHAIRMAN. For every dollar of currency that a bank failed to keep out in a 6 per cent locality, under Mr. Fowler's bill they would lose the difference between 1.4 per cent and 6 per cent.

Secretary GAGE. I can not answer the question, because I do not know the particular provision of Mr. Fowler's bill.

The CHAIRMAN. You would accept on a given proposition the figures of the actuary of the Treasury?

Secretary GAGE. Oh, yes.

The CHAIRMAN. That is the proposition submitted to him under Mr. Fowler's bill. I undertook to talk the bills over with the actuary, but I found he was a lawyer and knew more about them than I did. I have his figures. Under Mr. Fowler's bill, in a 6 per cent locality, they would lose the difference between 1.4 per cent and 6 per cent—that is, they would lose 4.6 per cent on every dollar out of circulation under 80 per cent; and under the Gage bill they would lose the difference between 0.44 per cent and 6 per cent, and under the commission's bill they would

lose the difference between 1.4 per cent and 6 per cent on every dollar in their vaults below 80 per cent of currency; and in a 4 per cent locality all the profit there is when the 80 per cent is kept out under the Fowler bill is .087, and under the Gage bill it is only 0.637 per cent, and under the commission's bill it is 1.4 per cent, while under the Walker bill it is 2.602 per cent.

Secretary GAGE. The criticism I would make on your statement is that under what you are pleased to call the Gage bill you assume that the banks will take that 20 per cent of notes under penalty of 2 per cent tax of the Government and keep them in their vaults idle. You charge them with the 2 per cent. As soon as experience taught them that they could not keep it out they would return and cancel and would not pay the 2 per cent tax.

The CHAIRMAN. They are allowed to take it out, and on whatever they take out against their capital, above 80 per cent of their capital, they are charged 2 per cent?

Secretary GAGE. Whatever they issue.

The CHAIRMAN. When they take out currency under your bill, on whatever they take out under the bonds there is no tax, but on whatever they take out and issue against their assets they pay a 2 per cent tax?

Secretary GAGE. There is a half per cent tax on what they take out under bonds and $2\frac{1}{2}$ on what they take out free of bond security.

The CHAIRMAN. You say they would not take out but 80 per cent. Let me put this proposition to you. They make more money—because they do not have to put up any bonds and do not deplete their capital—on the 2 per cent taxed currency than under the bond currency. If they took out 20 per cent taxed currency under your bill, they could make more money on their total currency than on all bond currency.

Secretary GAGE. Yes, sir.

The CHAIRMAN. Then it does not change by a fraction the profit on each dollar of the currency taken out. It is an inducement for them to take out one-fourth of their circulation against their assets, is it not?

Secretary GAGE. Yes, sir; if they can make anything by it.

The CHAIRMAN. If they want \$60,000 in currency, they will take out \$48,000 with bonds and \$12,000 taxed currency, and if they want \$75,000 they will take it out in the same way, so if they do not take out 80 per cent it does not change the profit by the smallest degree on the total of their currency, not a particle, whether it is 80 per cent, 60 per cent, 40 per cent, or 20 per cent. Is not that true?

Secretary GAGE. Excuse me if I have not followed you very closely. I am willing to trust your deductions, for you have figured it all over.

The CHAIRMAN. If you only take out 80 per cent, there would be one-fifth less of expenses and one-fifth less profit on the total currency, and the result would be identical as to the rate of profit on what they take out. That would be true?

Secretary GAGE. If you say so, I admit it. You have figured it over very carefully and made the results, and I have not.

The CHAIRMAN. Let me put this to you, because this proposition is as simple as 2 and 2 make 4. There is \$100,000 capital. Twenty per cent of that is taken out against the assets of the bank—

Secretary GAGE. If it is.

The CHAIRMAN. You say it is for their advantage; they can make more money on that 20 per cent than on the bond-security currency. So you assume that they will take that much anyway, and if they have one-fifth less currency out the profit will be one-fifth less on the

total amount, the expenses will be one-fifth less on the total amount and the relation between the profit and the expenses will be identical and the profit on that remaining will be identical. That is true?

Secretary GAGE. Yes.

The CHAIRMAN. That is all I have to say on that point. Under the Walker bill, the currency of which is issued on the true currency principle, the profit is identical on each \$1 in circulation.

Secretary GAGE. I have no doubt, Mr. Chairman, that your bill offers better inducements and more profit to the bankers than our bill.

The CHAIRMAN. Have you any doubt that it works out just as safe to the Government, to the banks, and to the holders of currency?

Secretary GAGE. No, I have not; with proper restrictions and limitations.

[Thereupon the committee took a recess until 1 p. m.]

The committee having reassembled, the examination of Secretary Gage and Mr. Fairchild was continued.]

Mr. WALKER. As I understand it, Mr. Fairchild, the bill of the commission would destroy all the Treasury notes and legal-tender notes; it would so use the silver dollars that they could not be had to use in the cash reserves of banks; and this for the purpose of making it impracticable for banks to get any other money but gold to redeem their notes with. That would be the effect of it?

Mr. FAIRCHILD. That would be the effect of it.

Mr. WALKER. How much gold would it take to furnish all cash reserves now held by national banks?

Mr. FAIRCHILD. I have not figured on that.

Mr. WALKER. The report of the Comptroller of the Currency says that \$389,000,000 in round numbers in cash reserve is held in the national banks, and that in the State banks there is \$152,000,000 cash reserve, and he estimates there is about 12½ per cent of the State banks that do not report to the Comptroller. That would make the probable cash reserve now in the banks \$562,883,000. The question is whether that amount in gold would not overload the banks, whether it is not an unreasonable expectation, and even if the expectation could be realized whether it would not be an exceedingly uneconomical procedure to compel the banks to keep \$562,000,000 of gold, upon which the country must lose interest. That is to say, "a sufficiency is enough." The moment they get gold to more than what makes absolute safety, the people are losing 6 per cent interest on the unnecessary surplus.

	Per capita, 1860 (page 380), State banks.			Per capita, 1897 (page 378), national banks.		
	Deposits.	Currency.	Total.	Deposits.	Currency.	Total.
New England States.....	\$13.99	\$15.06	\$29.05	\$36.42	\$9.87	\$46.30
Eastern States.....	17.50	6.39	23.89	25.95	3.62	29.57
Southern States.....	5.15	7.21	12.36	5.75	.80	6.55
Middle States.....	1.54	3.96	5.50	13.12	1.64	14.76

Whole United States:

Specie, 1860, State banks \$2.69

Gold, 1897, national banks 2.69

Mr. FAIRCHILD. Certainly.

Mr. WALKER. We want enough, and have both gone on the idea that a sufficiency is enough; but is not what is provided for in the commission bill an unreasonable amount?

Mr. FAIRCHILD. Possibly it is. I do not think it is an unwise amount.

Mr. WALKER. I have no doubt we can secure that amount if it is necessary. Let me call your attention to this fact. In the New England States in 1860 the per capita of deposits was \$13.99 and the currency was \$15.16, making \$29.15 available funds of the bank to be used in discount, besides the capital. To-day the deposits are \$36.43, and the currency is \$9.87. So we have \$46.30 per capita available funds in the banks of New England States, besides the capital.

In the Eastern States, in 1860, it was \$17.50 per capita of deposits, with a currency of \$6.39, making a total of \$23.89, and to-day we have but \$25.95 of deposits, and only \$3.22 of currency, making in all \$29.57.

In the Southern States in 1860 they had \$5.15 of deposits and considerably more currency, namely, \$7.21, making \$12.36 per capita of bank funds besides their capital; and to-day they have \$5.75 of deposits and only 80 cents of currency, making loanable funds, aside from their bank capital, of only \$6.55.

The Middle States in 1860, and they were not developed then, had \$1.54 of deposits and \$3.96 of currency, making \$5.50 total; and to-day they have \$13.12 of deposits and \$1.64 of currency, making \$14.76 of total bank funds available.

My point in presenting these figures is to ask you this: Is it not a fact that the localities having so little currency are hindered from taking out currency by our banking system, as compared with those of Scotland, Canada, France, and Germany—whether they are not practically deprived of the equivalent of capital equal to the currency that they would have under a free-currency system, and therefore embarrassed in the transaction of their business?

Mr. FAIRCHILD. I think they are greatly hampered in the transaction of their business in those localities by a system that prevents their freely getting the instruments in the form that they desire in the transaction of business.

Mr. WALKER. Excuse me for interpolating there. I think what you mean by "freely getting" is having the liberty of using their own credit in issuing freely what will take the place of coin?

Mr. FAIRCHILD. Yes.

Mr. WALKER. That is what I understood.

VISIBLE GOLD IN THE COUNTRY.

Now I want to call your attention to another remarkable thing. In the whole of the United States there was specie per capita in the old State banks, in 1860, of \$2.69 per capita. To-day there is gold in the national banks to exactly the same amount—\$2.69 per capita.

Mr. FAIRCHILD. Does that include all the old State banks?

Mr. WALKER. All; yes, sir.

Mr. FAIRCHILD. Then the gold in the national banks is equivalent to the gold in the State banks.

Mr. WALKER. It is fair to say that the gold in banks in 1860 per capita was \$2.69 in this country. To-day it is the same per capita in the national banks alone. The amount in the State banks is not given to-day, but they hold of cash 44.7 per cent as much as the national banks. It is reasonable to suppose that there is \$1.20 of gold in State banks, which, added to the other, makes a specie, probably gold, to-day, per capita, \$3.89, to \$2.69 in 1860. Now, \$3.96 in gold to each of the 73,000,000 amounts to \$272,300,000 in gold. The visible gold, as shown in the

Comptroller's report, December 7, 1896, page 22, was \$421,236,388. Visible gold not in banks of loan and discount then was \$148,936,388. Total gold in the United States is \$696,270,542, by the report of the mint. I did not suppose it was anywhere near that amount, but my recent investigation, and the fact that gold is paid in for taxes in St. Louis and other cities by comparatively poor people, leads me to think that there is more than that. I should not be surprised if \$800,000,000 developed if we had a proper banking system that fully restored confidence. The visible gold per capita—not the gold in pockets, but the visible gold in the various institutions—is \$5.77, and the total gold in the country is \$9.54 per capita that we know of, not counting that which is hoarded. I take the statistics as they are given.

Mr. NEWLANDS. Will you please state again what the per capita of visible gold is?

Mr. WALKER. Five dollars and seventy-seven cents. That was found by the investigation of Mr. Eckels, and was stated in his report of December, 1896, page 26. My point is, that if we had a banking system that would establish confidence, such as is felt in Germany, France, Canada, and Scotland, would not a large amount of gold that is not now visible be visible by flowing into banks at once, or at least very soon?

Mr. FAIRCHILD. I think so. I think if there was entire confidence in our monetary condition that we would see a great deal more gold.

Mr. WALKER. The New England banking system—the Suffolk system—was understood to be about as safe a system as any country has ever had in its practical workings; so much so, that in 1857 scarcely a bank failed, and when they suspended specie payment (and then because New York had suspended and they were forced to do it for that reason) they paid, during the whole of that suspension to anybody that asked for it in the legitimate way of business, all the specie they wanted; and gold did not go to a premium by the smallest fraction during that nominal suspension.

Mr. McCLEARY. When was that?

Mr. WALKER. In the panic of 1857. The statements that I have made are matters of history.

Mr. McCLEARY. I do not doubt your statement, but was simply asking for information.

Mr. WALKER. Now, at that specie security we could issue to-day \$1,454,075,000 of currency, with 13½ per cent gold back of it, as New England banks then had.

Mr. McCLEARY. And have as good security.

SUFFOLK SYSTEM NATIONALIZED IN H. R. 3333.

Mr. WALKER. Yes. And have the same amount of gold in the banks back of the currency now, as through the New England system for forty years—the Suffolk system. The bill H. R. 3333 is the Suffolk system nationalized. It is absolutely and purely that, and nothing else; that is to say, essentially the same as the Scotch and the Canadian and the German and the French systems now. Issuing \$800,000,000 of currency there would be visible gold in the banks within a small fraction of 24½ per cent, about double of what there was in the New England banks under the Suffolk system. The visible gold that would flow into the bank immediately would be 52 per cent, more than half, which is an unheard of percentage of gold currency issued.

In view of these facts, have you any doubt about the safety in the specie reserve to maintain the \$800,000,000 currency that it is contemplated would be issued in the near future?

Mr. FAIRCHILD. I have no trouble on the specie question. I think there will be ample for that.

Mr. WALKER. In view of this immense amount of gold that we now have in banks and the additions that would find their way into the banks, namely, 52 per cent now of gold to \$800,000,000 of currency, if that is issued, is not the retaining of \$200,000,000 of legal-tender notes that the banks can keep in reserve a good and not an evil in furnishing a redemption agent and a reserve—that is what I am getting at? I have introduced these facts, not with reference to the gold question, but to discuss this question: If the Government is relieved from current redemption, and it is put on the banks, and the banks have this immense amount of gold, is not the assumption of “current redemption” by the banks entirely safe?

CURRENT REDEMPTION.

Assuming what I have stated is correct, is it not a good and not an evil to continue \$200,000,000 of legal-tender notes so that they can be used as available funds by banks to supply and transfer balances rather than to be at the expense of transporting gold?

Mr. FAIRCHILD. It would not be necessary to transport the gold any more than we do at New York at the present time. There they have to put the gold in charge of the clearing-house, and they have simply a piece of paper to represent it. It is a mere matter of ingenuity.

Mr. WALKER. In the absence of this \$200,000,000 of legal tender they would have to accumulate this \$600,000,000 of gold?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Now, if that is so, would it not be a good to the country not to require them to accumulate the \$600,000,000, but be satisfied with \$400,000,000, and let them hold \$200,000,000 of greenbacks in the place of \$200,000,000 gold?

Mr. FAIRCHILD. Who is behind the \$200,000,000 in greenbacks?

Mr. WALKER. The banks. They have to redeem them the same as their own currency.

Mr. FAIRCHILD. Where do they get the gold for that?

Mr. WALKER. The same as to redeem any other currency notes, out of the \$621,000,000 of gold.

Mr. COX. Where do they get the \$421,000,000?

Mr. WALKER. It is “visible” in the country now.

Mr. FAIRCHILD. I do not get very clearly in my mind how you relieve the Government of the greenbacks and the greenbacks still remain, making the banks responsible for them. Where then, do you differentiate them from the other notes, as to reserves and liabilities? How do you arrive at that?

Mr. WALKER. Arrive at their current redemption?

Mr. FAIRCHILD. Yes.

Mr. WALKER. By requiring banks to deposit in lawful money in the Treasury a sum equal to 12½ per cent of their capital and destroy the existing greenbacks to the same amount and issue to the banks a new print of the greenbacks with their own bill printed on the back of them, which they shall sign and execute as though it were only their own note, and it is legal tender to everybody as now—every bank and every individual—except to the bank that takes and issues them. They will be the same as a Bank of England note. They are legal tender every-

where except at the bank whose note is printed on the back of them. That takes \$200,000,000, and the bill further provides that that amount shall never be increased, but that the percentage of $12\frac{1}{2}$ shall be reduced. It does not mention \$200,000,000, but that is what it comes to. When that is once done, $12\frac{1}{2}$ per cent will never be increased, but on the contrary may be reduced.

Mr. FAIRCHILD. If I apprehend your question, it seems to me that that is making a legal tender again of somebody's credit, and while that is economical, or might be economical, and we might like to limit it, I am afraid of the idea. I do not know that I do comprehend the idea fully, but if I do, I am afraid of the idea of making anybody take anybody's promise to pay if he does not want to take it. That would be my objection to your idea, if I understand it.

Mr. WALKER. The point is that the people insist on retaining the legal-tender notes and refuse to withdraw them.

Mr. FAIRCHILD. Under our bill they remain if the people do not want to have them paid.

Mr. WALKER. Do you mean all the people or the people who are the bankers? This becomes a political question.

Mr. FAIRCHILD. Anybody who holds them may refrain from presenting them for payment in gold if they prefer to have them; and my opinion would be, as I have already expressed it, that having once established our principle they would be retained certainly during the ten years, and even after they cease to be a legal tender they would be performing a very large function.

Secretary GAGE. Mr. Walker, I would like to ask you a question or two on that point.

Mr. WALKER. Certainly.

Secretary GAGE. Your proposition is equivalent, as I understand it, to the banks loaning the Government of the United States $12\frac{1}{2}$ per cent of the amount of their circulating notes free of interest, substantially.

Mr. WALKER. No, not at all; because if it was to a greater amount it might be, but being at an amount so small, only one-quarter of the cash reserve that the law requires them to keep, and being all taken up in the reserve, and the coin reserve being ample without that, they being treated as coin and performing all the work of coin, it is equivalent to allowing banks the liberty of using their own paper in the place of gold. The bill is drawn upon that theory, and allows the bank with 50 per cent of greenbacks to take out 50 per cent of currency, but whenever the bill gets into full operation, it may take 100 per cent the same as a bank with $12\frac{1}{2}$ per cent, upon the theory that this was worth to the banks in practice as much as the gold.

Secretary GAGE. Still, it would remain true that the Government would get the advantage of \$200,000,000 without interest?

Mr. WALKER. Certainly.

Secretary GAGE. The only difference is that it would be furnished by the banks without any sacrifice or cost?

Mr. WALKER. Yes.

Secretary GAGE. Since it would go into the bank reserves, being available to them in an ultimate case?

Mr. WALKER. It would never be circulated at all. It would take them from circulation as much as your system or Mr. Fairchild's.

Secretary GAGE. They probably would not be circulated, but if they were paid out the bank would have to redeem them and it would be as much a charge on them as if they were their own notes. Therefore, is

it worth while to go through the machinery of those notes? Would it not be better for the banks to lend the Government \$200,000,000 for the privilege of issuing their own notes?

Mr. WALKER. It absolutely relieves the United States Treasury from all responsibility for redemption, for the bill (H. R. 3333) provides that the banks shall pay a penalty tax of one-tenth of 1 per cent on their deposits if they fail to maintain the parity between the four kinds of money—the national bank notes, the legal-tender notes, and the silver dollars, and the gold coin. We will go along a little further and to-morrow you or Mr. Fairchild may make, if you please, any observations which you want to make on this proposition. We will take that up to-morrow morning.

Mr. McCLEARY. I have been trying to picture this note that you have been describing. Am I to understand that it is a United States note on one side and a bank note on the other?

Mr. WALKER. Yes; it is exactly the same as legal-tender notes except to the bank that has its note printed on the back, and to that bank it is purely a currency note, like the rest of the notes it issues against its assets.

Is it not a fact that neither the Government Treasury here nor any subtreasury can currently redeem paper with the current funds as banks can do it? The Government can not do it without the actual presence of the legal redeemer? I address my remark to either Secretary Fairchild or Secretary Gage, or to both.

Mr. FAIRCHILD. Will you repeat that?

Mr. WALKER. Can the United States Treasury or any of its sub-treasuries currently redeem paper money as freely, immediately, and economically as the banks can redeem the paper money themselves?

Mr. FAIRCHILD. Do you mean can the Treasury redeem bank notes as economically?

Mr. WALKER. Paper money of any kind—paper money that they issue as easily as the banks can redeem money they issue.

Mr. FAIRCHILD. I do not understand.

Mr. WALKER. The Government can not issue it because it has not the machinery to do it.

Secretary GAGE. Is it a question of the relative cost of the machinery of doing it by the Government or banks?

Mr. WALKER. That is it exactly.

Mr. FAIRCHILD. That I can not say. That is a matter of statistics. I could not say as to the cost.

Mr. WALKER. For the cost of keeping the redemption of moneys—the whole system—the United States Government has held between \$200,000,000 and \$300,000,000 of money for twenty years. It is a cost to the people who are taxed to keep it of 6 per cent interest on that sum of money. Now, it is proposed in both your bill and in Secretary Gage's bill to add \$200,000,000 more, bringing the money in the United States Treasury up to \$450,000,000, and the interest on that costs the people 6 per cent. That makes \$27,000,000 a year for the privilege of the United States Treasury redeeming this paper money—that is, we have got to keep that amount on hand. Not only that, but the machinery of redemption in the sense of products meeting products in the general funds of a bank and their paper representatives including currency notes with its other obligations redeeming each other, not Treasury redemption, is not as convenient as it would be in a banking system outside the Treasury? Is not that a fact?

Mr. FAIRCHILD. That is a fact.

TREASURY RELIEVED OF CURRENT REDEMPTION.

Mr. JOHNSON. Do you eliminate the United States Treasury in your scheme?

Mr. WALKER. Certainly. It is nothing to the public whether the Treasury receipts are more or less under my bill.

My bill absolutely relieves the United States Treasury from having anything to do with the current redemption of any money of any kind, and puts it on the banks, and on the theory that the banks can do it at no cost, that gold freely flows into the banks, and flows out of them where they issue true currency notes—paper money. That absolutely relieves the Treasury. My claim is that my system would relieve the United States Treasury of keeping \$400,000,000, more or less, that your bills require to be kept in the Treasury.

Mr. FAIRCHILD. What is the \$400,000,000?

Mr. WALKER. There is \$280,000,000 now in the United States Treasury, more or less—some \$280,000,000 to \$288,000,000; \$288,000,000 it has averaged in some years.

Mr. NEWLANDS. Of what?

Mr. WALKER. I mean of "free moneys," as reported. Call it Government working note redemption capital if you choose. England has a working capital of about \$20,000,000; France a working capital of about \$30,000,000, and Germany a working capital of about \$20,000,000, and we have \$280,000,000.

Now, Mr. Gage proposes to take out \$125,000,000 of this \$288,000,000; he proposes to add \$200,000,000, making \$325,000,000, which is equivalent to adding \$200,000,000 to what we now have; while my bill relieves the Government of the necessity of keeping any money whatever except an ordinary exchequer balance, the same as any man keeps who does his business for cash.

Mr. FAIRCHILD. Then somebody else is to take care of those things.

Mr. WALKER. It costs the Government interest on it and would not cost the banks anything.

Mr. FAIRCHILD. They do not make interest on the money in their vaults.

Mr. WALKER. That is true, but they would not have to keep any additional sum there under bill H. R. 3333.

Mr. FAIRCHILD. They would take care of the notes, and the banks would not have to do any more than now. Is that it?

Mr. WALKER. The banks to-day sustain the Treasury and are at the expense of sustaining the thousand million dollars that are in circulation. That is my assumption. Now, if the thousand million dollars that is in circulation pays only 1 per cent, the people are in fact paying the difference between 1 and 6 per cent on the whole \$1,000,000,000 the way it is now issued—that is, \$50,000,000 a year in higher rates of interest. I ask you if that is not a fact?

Mr. FAIRCHILD. I do not get at that.

Mr. WALKER. Suppose there was no paper money in existence except that issued by the banks, and suppose the demands of the people call for \$1,000,000,000 of paper money, as now, and the banks issued it and kept that amount in circulation. We will put it in round numbers. The banks would make on that what their rates of loans and discounts were on their general business.

Mr. FAIRCHILD. Yes.

Mr. WALKER. If they are not making any money on that, then the banks are losing that much that they otherwise would make under the

English or Scotch or French or German or Suffolk or State bank system, or under the Walker bill. Is not that true?

Mr. FAIRCHILD. Of course; that is a mathematical statement; that if they do not loan the money then they are not making the interest on it.

Mr. WALKER. That is as far as I care to go on that.

GOVERNMENT GUARANTY OF FINAL REDEMPTION.

Mr. FOWLER. Ultimate redemption, however, is thrown upon the Government.

Mr. WALKER. Yes, when a bank becomes insolvent, \$200,000,000 of it; but there is a tax that more than covers it.

Mr. FOWLER. But there is no limit to the tax?

Mr. WALKER. Yes.

Mr. FOWLER. The Government is responsible absolutely?

Mr. WALKER. Certainly; but there is a tax that will pay for that.

Mr. FOWLER. But if that tax doesn't happen to cover it the Government must take it up?

Mr. WALKER. Certainly; the Government guarantees in a statute the same as now, with a bond.

Mr. FOWLER. It is an absolute guarantee for all the banks may issue?

Mr. WALKER. Yes. The money is just as safe as the bonds, except it is written in the statute instead of being written in the bonds.

Mr. HILL. There is a 5 per cent held by the Government of its own money against its own notes.

Mr. WALKER. Yes, it would amount to \$10,000,000, and the bank also keeps with the Government an amount equal to 5 per cent of its currency, which it can not count in its reserve.

Mr. JOHNSON. Are you talking about your bill?

Mr. WALKER. I am talking about my bill. I have asked these gentlemen to tell me in the morning whether that does not meet their idea of what we are aiming to do in a bill to report by this committee. Is not all the currency, paper money, used in all the leading nations kept at par with gold by the banks in each country, this country alone excepted? Is not that true, Mr. Fairchild? (After a pause.) Unless specie is at a premium? Every sound-money nation, I mean.

Mr. FAIRCHILD. Certainly. They have no government notes in those countries, as I understand it.

Mr. WALKER. No other country has government notes.

Mr. NEWLANDS. How about Italy?

Mr. FOWLER. Japan, Italy, and Russia all have.

CHANGING THE OLD BONDS FOR NEW.

Mr. WALKER. You said with reference to changing these bonds, the other day, that "the Government of the United States would have to pay the same sum, principal and interest, adding them both together, that it would have to pay under the bonds that are now out. Counting both, it would not increase or diminish the public debt that will finally have to be liquidated on account of bonds, excepting this—some of the bonds mature in 1904 and some of them in 1907. These 2½-per cent bonds that I propose to issue—this extends the bonds a little; in one case it extends them three years and in the other case one year, by the 2½-per cent bond I propose." My question is, do you mean that

when you get at the total interest that is paid through the period, principal and interest, and add the two together it amounts to the same sum.

Secretary GAGE. Yes, sir; substantially the same sum.

Mr. WALKER. That was my understanding of it. (Reading.)

The present 5 per cent loan of 1904.

\$5,000,000 × 6 years.....	\$30,000,000.00
Add the principal of 5 per cent bonds.....	100,000,000.00
To raise by taxation during the life of the bonds.....	130,000,000.00
The new bonds provided in the Gage bill, viz: the	
2½ per cent 10-year bonds to cancel it:	
\$2,851,739.75 × 10 years	\$28,517,397.50
Add the principal of the new 2½ bonds.....	114,069,590.00
	<u>142,586,987.50</u>
Increased sum to raise by taxation	12,586,987.50

The present 4 per cent loan of 1907.

\$22,385,652 × 9 years.....	\$201,470,868.00
Add the principal of 4 per cent bonds.....	559,461,300.00
To raise by taxation during the life of the bonds	760,932,168.00
The new bonds provided in the Gage bill, viz: the	
2½ per cent 10-year bonds to cancel it:	
\$15,747,956.75 × 10 years	\$157,479,567.50
Add the principal.....	629,918,270.00
	<u>787,397,837.50</u>
Increased sum to raise by taxation.....	26,465,669.50

Annual interest on the present 4 per cent loan of 1925 (which is not included in the Gage bill).

\$6,492,616 × 27 years.....	\$175,300,632
Add the principal.....	162,315,400
To raise by taxation during the life of the bonds.....	337,616,032
The new bonds provided in the Gage bill, viz: the 2½ per cent	
10-year bonds to cancel it, at \$5,252,954.50 × 10 years	
	\$52,529,545
Add the principal.....	210,118,180
	<u>262,647,725</u>

Less sum to raise by taxation.....	\$74,968,307
If the 4 per cent bonds of 1925 could be funded into 2½ per cent ten-	
year bonds, at their market price, there would need to be raised by	
taxation during the life of the bond	
	\$74,968,307.00
By so funding the 5 per cent 1904 bonds the sum to be	
ultimately raised by taxation is increased by.....	
	\$12,586,987.50
And by so funding the 4 per cent 1907 bonds the sum	
to be raised during the life of the bonds by taxation	
is increased by.....	
	<u>26,465,669.50</u>

A total of.....	<u>39,052,657.00</u>
Showing a sum in favor of selecting the 4 per cent loan of 1925 over	
the 5 per cent 1904 and 4 per cent 1907 of.....	
	<u>35,915,650.00</u>
Increase in the 1904 bonds.....	12,586,987.50
Increase in the 1907 bonds.....	26,465,669.50
Total increase of taxes in the life of the bonds	<u>39,052,657.00</u>
The face value of these 1904 and 1907 bonds is	
	659,641,300.00
Changed to a 2½ per cent bond it will be.....	
	<u>743,987,860.00</u>
Increase of	84,346,560.00

Title of loan.	Rate.	Outstanding Nov. 1, 1897.	Market value Jan. 1, 1898 (estimated).	Amount of 2½ per cent 10- year bonds, interest pay- able quar- terly, that would be of the same value to holder as said bond Jan. 1, 1898.	Annual in- terest paya- ble on the present out- standing bonds.	Annual in- terest paya- ble on the proposed 2½ per cent 10-year bonds.
Loan of 1904	5 per cent.	\$100,000,000	a \$114,069,590	\$114,069,590	\$5,000,000	\$2,851,732.75
Funded loan of 1907...	4 per cent.	553,641,300	b 635,503,760	635,918,270	22,385,652	15,747,954.75
Loan of 1925	4 per cent.	162,315,400	a 210,118,180	210,118,180	6,492,616	5,252,954.50
Total		821,956,700	959,691,530	954,106,040	33,878,268	33,852,651.00
		a At 2½ per cent.		b At 2.4 per cent.		

Had Secretary Gage included the 1925 bonds and funded them with the others, he would have reduced the sum to be raised by taxation by \$36,000,000 instead of increasing it by \$39,000,000. So you were mistaken in that statement.

Secretary GAGE. No, I am not, unless you had figured that because it has the use of the money for a longer time—

Mr. WALKER. No, I have not figured anything on that.

Secretary GAGE. This exchange of the outstanding bond for the 2½ per cent bonds I propose would be on the present worth of the present bond. We would receipt them and give bonds for them—these 2½ per cent bonds. So the man would realize as much principal and interest in the one case as he would in the other.

Mr. WALKER. During the life of the bond.

Secretary GAGE. Compound interest both ways or reinvestment of the money during the life of the present outstanding bond.

Mr. WALKER. The tax now on this \$100,000,000 is \$5,000,000 a year; six times that is \$30,000,000, and the principal is \$100,000,000. That amounts to \$130,000,000. On the 2½ per cent bonds to cancel that the interest is \$142,586,987.50 for ten years.

Secretary GAGE. I can not help what figures you have there. If I have a note, payable in ten years from now at 6 per cent interest, it is very easy to figure out what it is. Take my note at 4 per cent interest instead of 6 per cent and make the new bonds say that I will account to the man just the same as though I had paid him principal and interest at the dates on which the same matured on his present loan. It is a question for an actuary to figure out, and as a matter of fact he has figured it out, showing at what price we will take in the 4 per cent bonds, giving 2½ per cent bonds to equalize the thing.

Mr. WALKER. He has given the market value here and given value of the bonds.

Secretary GAGE. You have not figured it right.

Mr. WALKER. They are the actuary's figures that I have.

Secretary GAGE. You have not made allowance for some factors in the exchange.

Mr. WALKER. Will you report on that in the morning?

Secretary GAGE. I do not think it is necessary to report on anything. It is a perfectly feasible everyday proposition, by which you convert a 4 per cent bond into a bond of a lower price, adjusting the relations on the principle of accounting, just as you would account to a man who had retained his bond as to the semiannual payments from time to

time with a larger amount. It may be possible that this statement which you and I make grows out of the fact that under my proposition we defer the payment of about \$10,000,000 a year interest for nine or ten years, and if we do, we will have to pay interest on that deferred payment like any other deferred payment, but I am not sure whether that is true or not.

Mr. WALKER. The point is we have to defend our action before the people, and they take up these statements and these are the figures presented to them. Your statement is that no more would have to be raised in taxation during the life of these bonds you propose than would have to be raised under the existing bonds to cover the principal and interest. The actuary has figured out the market value January 1, 1898, estimated as $2\frac{1}{2}$ per cent on the 1904 5 per cent bonds, to pay an income of 2.4 to-day on the 1907, and pay an income of $2\frac{1}{2}$ per cent on the 1925 bonds, which shows an advantage to the Government in taking up the 1925 bonds rather than the other bonds.

Secretary GAGE. I will talk to the actuary about that. Perhaps he can make it clear.

Mr. WALKER. Do you not think it is the duty of this committee, if it can report a bill that has as favorable, and certainly if it has a more favorable, opportunity of passing the House that will at once place our financial and banking systems, the Treasury system, where you would propose to place it in the future, to have it done now rather to pass the bills that are tentative in their character?

Secretary GAGE. Yes; I do think so.

Mr. WALKER. Will you critically examine the bill of Mr. Fowler and the bill of the chairman, which I hope you will do before you come to-morrow, and then give us your opinion on those bills? That is what we want—exactly what you think about those bills.

Secretary GAGE. They are both pretty long and comprehensive, and I do not know that I will have time by to-morrow morning to examine them.

Mr. WALKER. In my bill the text is somewhat long, but were there no complications of our Treasury and currency situation, and were no provisions necessary to provide for the transition to a better, I could write it on two pages.

Secretary GAGE. I wish you would.

Mr. WALKER. I can not do that. I say, in answer to your suggestion, that the reason I can not do it is because we have a perfectly chaotic condition in our financial and banking system, and we are obliged to provide for its transition, so any bank would not know that its neighbor bank was being changed from the present system to the one proposed, nor any merchant, even if a crisis should strike us during the progress of it; and when you undertake to reduce financial chaos to order, you have to use quite a number of words. I think the bill will do that, and I would like your judgment on that point also.

My point is, what I propose in my bill is far simpler and far more easy to get through Congress than either of the other bills.

Secretary GAGE. Well, you ought to understand your own bill better than anybody else could, or better, perhaps, than you could understand any of the others.

Mr. WALKER. Have you examined the bill carefully?

Secretary GAGE. Yes; I read it carefully, and got so I understood it pretty well at one time.

REAFFIRMING THE GOLD STANDARD.

Mr. WALKER. What I wanted to ask you and Mr. Fairchild was the same question I asked Senator Edmunds. The existing standard, as you claim, being declared in the law to be the gold standard, why complicate the difficulty of getting a banking bill through by reenacting that statement? Can anything be accomplished by reenacting that declaration if it is existing law, as I understand Mr. Edmunds conceded, rather than to go forward and create the machinery that shall make practical that theoretical declaration, when including in a bill the theoretical declaration would probably defeat the bill in the House? Why should that be attempted?

Mr. FAIRCHILD. Do you ask that of me?

Mr. WALKER. Yes; of both of you.

Mr. FAIRCHILD. I would like to refer back to the answer that Mr. Edmunds gave to that and have that as my answer also.

Mr. WALKER. Mr. Edmunds did not give any answer.

Mr. FAIRCHILD. Oh, yes; he gave a good answer.

Mr. WALKER. Well, he went around the point in his answer.

Mr. FAIRCHILD. I think if you look that up you will see he answers that very clearly. [See page 81.]

Secretary GAGE. He gave a good answer, but I am willing to supplement it.

Mr. WALKER. We will be glad to hear what you would add.

Secretary GAGE. The obligations of the United States are payable in coin. There is a very deep dispute as to what that means. Our friends on one side of the House say it means that the Government of the United States can with perfect propriety pay silver. The other side of the House say, "No, it will be bad faith to do it; it would not be honorable."

In order to indicate that the Government would either pay gold or silver, and whichever it paid that it should be as good as gold in every way, the Congress passed, on three occasions, attachments or amendments or clauses in acts relating to other matters, in which they declared that it will be the policy of the United States to maintain the parity between these two metals. If that is done nobody could complain. Nevertheless there are outstanding \$800,000,000 and some odd thousand dollars of bonds of the United States which are issued under a law of thirty years ago, payable in coin, and all these various acts and clauses in acts which relate to parity have been passed since. They may all be repealed and do no violence whatever to the contracts which were made thirty years ago. And as long as that is the fact and one section of the country—a highly respected minority—at least, contend it is the right and the duty of the Government to pay the coin in silver, there is a constant pressure and temptation to repeal those measures, to open the road, and as long as the majority hesitate and doubt and are afraid to face the question, so long doubt will exist in the minds of the people who are the victims of the legislation. Those are the facts which, to my mind, seem to make it necessary for the welfare of this country to give better assurances than now exist that the present gold standard, which was practically established in 1834, shall continue to prevail and be the standard of future payments for an indefinite future or for all time to come. That is why it is important, and as important a thing as any other feature of the bill.

Mr. WALKER. Do you not understand that France is absolutely secure on the gold standard?

Secretary GAGE. Yes, I think so.

Mr. WALKER. Do you not think Germany is absolutely secure on the gold standard?

Secretary GAGE. I believe so; but it does not make so much difference to me what Germany or France are on as it does what we are on, because our contracts are domestic and relate to all the trade and commerce which we get.

Mr. WALKER. I make the statement that the bill drawn by me (H. R. 3333) puts us on precisely the same standard in precisely the same manner, with a little different machinery, as France or Germany, and if that is the fact, and that bill could be passed and this Monetary Commission bill could not, and mine accomplishes what you declare ought to be accomplished—

Secretary GAGE (interrupting). Then it would be perfectly satisfactory to me in that particular.

[Thereupon, at 2.45 p. m., the committee adjourned until the following morning, January 19, 1898, at 10.30 o'clock.]

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 19, 1898.

SIXTH DAY.

The committee met at 10.30 a. m., Hon. Marriott Brosius in the chair.

Present: Messrs. Walker, Brosius, Johnson, Van Voorhis, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, Stallings, Ermentrout, and Maddox.

The clerk read a letter from Hon. Lyman J. Gage, Secretary of the Treasury, asking to be excused from appearing before the committee this morning, owing to a slight indisposition.

Hon. Charles S. Fairchild then resumed his statement.

**STATEMENT OF HON. CHARLES S. FAIRCHILD, A MEMBER OF THE
MONETARY COMMISSION AND EX-SECRETARY OF THE TREASURY—Continued.**

Mr. WALKER. Mr. Fairchild, we will go on with the hearing. I wish to say I do not think we accomplish so much by questions not being asked at the point where they should be asked, and therefore, while I hold the floor, I will yield to any gentleman for a question which is pertinent to the subject I introduce and must decline to yield for one on any other subject. If any member of the committee desires to ask questions on the particular point made, I will yield.

CHANGES IN EXISTING LAW PROPOSED IN THE SEVERAL BILLS.

When we closed last night you were asked in reference to your taking the risk of losing the whole bill by putting in the declarations which are in the bill of the commission and also in the bill prepared by the Secretary of the Treasury, Mr. Gage, in reference to the gold standard. In view of the fact developed in searching the statutes that section 3511 of the Revised Statutes declares: "The gold coin of the United States shall be a one-dollar piece, which at the standard weight of 25.8 grains

shall be the unit of value," and that the act of July 14, 1890, reaffirms that in the following words: "It being the established policy of the United States to maintain the two metals on a parity with each other upon the present legal ratio or such ratio as may be provided by law," and that the act of November 1, 1893, repealing a part of the act of July 14, 1890, again reaffirms section 3511 of the Revised Statutes in the following words: "And it is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money, and coin both gold and silver into money of equal intrinsic value, such equality to be secured through international agreement or on such safeguard of legislation as will secure the maintenance of parity in value of the two metals"—why should we run the risk of losing the whole bill by incorporating declarations which appear three times in the United States statutes, when the bill of itself, without the declaration, will accomplish the object? Here is what Mr. Edmunds said:

[From the proceedings of the first day, January 12, 1898. See page 79.]

The chairman, having read the different acts on the subject, said: "My question is this, does section 1 of this bill add anything whatever or change the existing legal conditions of the law which I have just read?"

Mr. EDMUNDS said: "I think, Mr. Chairman, speaking with absolute frankness, which I think is due to legislators, that it is extremely desirable, if not necessary. Speaking technically—we do not know what a court will do—it is not absolutely clear in view of these provisions that you have read to my unsophisticated mind that we have not now a double legal standard, that the silver dollar is made legal tender at the present ratio. Now, although it says, and probably that is the law, that the act of 1873 made gold the standard, it was our purpose to make it absolutely clear, so everybody would understand it alike. It ought to be straight, whichever way it is."

Allow me to say that it seems to me that was not quite as frank a statement as the committee was entitled to.

Mr. FAIRCHILD. I do not know what you expect me to say about that. In getting up this plan the policy we pursued in the commission—

The CHAIRMAN. That is exactly what I want to get at.

Mr. FAIRCHILD (continuing). Was to propose something which we thought would be complete and useful and workable, if adopted by Congress. We considered two lines. First, whether we should attempt to frame something which we thought would meet the views of any particular Congress, looking to the make-up and the general views of Congress. And the other consideration was whether we should proceed solely without reference to that, but to get something that we believed would be beneficial if enacted, leaving out of view entirely the probabilities of its enactment. We concluded to adopt the latter course, believing, in the first place, we were not competent to test the feeling of Congress, and that it was not the function of a body like the Monetary Commission; that that was a function of a committee of Congress. That was another element which it was not our province to take into consideration, the temper and disposition of Congress, so we have proceeded not on the question of policy of passing a bill, but on the question of the general policy if a bill were passed.

Mr. WALKER. The changes proposed in any bill would be agreeable should it involve no practices or conditions that had not proven to be wise in the actual practice of banking, and correct those practices found to be unwise?

Mr. FAIRCHILD. Certainly.

Mr. HILL. I would like to ask Mr. Fairchild if he knows of any prop-

osition before this committee that does not involve changes in the law of banking that never have been tried before?

Mr. FAIRCHILD. That is not the question of Mr. Walker.

Mr. HILL. Mr. Walker asked if there is any feature embodied in this bill not tried before. Do you know of any bill before this committee that does not involve questions that never have been tried before?

Mr. FAIRCHILD. I did not so understand Mr. Walker's question.

(Mr. Walker repeated his question.)

Mr. FAIRCHILD. I can not say yes to that, because, of course, our mutual guaranty fund is a thing that has not been tried and which we advocate.

Mr. WALKER. Should not that practice be adhered to as far as it is practicable and accomplishes the end?

Mr. FAIRCHILD. We advocate the mutual guaranty fund and believe it will work. We think it has been tried in actual practice in banking in every respect except as to the limit.

Mr. WALKER. Following up Mr. Hill's question, if you examine the four bills indicated and the other bills before the committee as to the changes they make—as a matter of fact, have you examined them critically?

Mr. FAIRCHILD. I have not examined them critically, but I can say I have examined them.

Mr. WALKER. To take them in order, have you found anything in the bill proposed by Mr. Gage which proposes new conditions or experiments which have not been tried in banking?

Mr. FAIRCHILD. I would not like to answer that question as to any of those four bills, because I have not examined them in reference to that.

Mr. WALKER. The committee would be glad to have you make any suggestions which you choose in reference to any of the bills which are before us.

Mr. FAIRCHILD. Well, I have no suggestions to make in regard to that, Mr. Walker. I was here to present our own bill, and I believed I was not here to criticise or compare it with other bills, that that was the function of the committee and the gentlemen who are more familiar with these bills than I; if they saw advantages or differences in them, well and good. I was here to answer questions and to give any information I could with reference to the bill prepared by the commission, always wanting it to be distinctly understood that we were not partisan, and that any one of these measures, or all of them combined, which will accomplish the general result, is perfectly satisfactory to that commission; and that our part should be contributed by simply explaining and answering in regard to our own bill. I do not feel competent to answer in regard to Mr. Gage's bill, or Mr. Fowler's bill, or Mr. Walker's bill in any way that would be beneficial, and I think those gentlemen who are familiar with it can do it much better than I can.

GENERAL PRINCIPLES ON WHICH A BANKING LAW SHOULD BE FRAMED.

Mr. WALKER. In addition to explaining your bill, I think, when the investigation began it suggested questions in reference to general banking and banking principles that were valuable to the committee in deciding on your bill, and hence the other bills were in order for discussion.

Mr. FAIRCHILD. I am very glad to answer about any general principles of that sort, but on particular details of these other bills and as to exactly what their effect would be I do not like to answer, because it is not an answer after the kind of consideration a man likes to give. A man who has the framing of one of these bills sees many more things than another man does.

Mr. WALKER. Should not the changes proposed, while being thorough, make banking as free and allow currency notes to be issued to the people as freely and at the lowest possible cost that is consistent with its sure current redemption in specie and the sure and immediate payment of these currency notes in case of insolvency?

Mr. FAIRCHILD. That is my idea.

Mr. WALKER. The changes should allow those sections of the country where interest is highest to make the same relative profit on the currency issued in those sections as is made in the lower-interest localities, should it not?

Mr. FAIRCHILD. I should think so, most decidedly.

Mr. WALKER. Of course, if you have declined—

Mr. FAIRCHILD. Do not understand that I decline anything; but I do not feel competent to pass an examination on these other bills.

Mr. WALKER. I want to ask this question of you as an expert, so that when we come as a committee to examine these bills we can bring them to a test on true banking principles. Is it not the practice of merchants and manufacturers and those living in cities to leave the proceeds of a personal note discounted for them by a bank, in the possession of a bank in the form of an "individual deposit" to be drawn out by checks, drafts, etc.?

Mr. FAIRCHILD. I think it is done either in the bank which makes the discount or some other bank. As it is now, I should not say the discount went directly into the bank that made them, because the business has become so much a purchase of paper.

Mr. WALKER. Then I will put it "or in some other bank?"

Mr. FAIRCHILD. Yes.

Mr. WALKER. On the other hand, is it not the almost universal practice of the people who live in sparsely settled sections of the country, and especially the farmers, to take home with them the currency notes of the bank discounting their time notes rather than to leave the proceeds in the bank discounting, or in another bank?

Mr. FAIRCHILD. I understand that to be the case.

Mr. WALKER. Then is not a very great hardship worked to those sections of the country under a banking system which does not allow the free issue of paper on the true banking principle?

Mr. FAIRCHILD. I consider it so.

Mr. WALKER. Is not a currency note to the person holding it the equivalent of a certificate of deposit, or a certified check in the bank?

Mr. FAIRCHILD. It is, except that it is more available for him.

Mr. WALKER. Better for his purpose?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Then it follows, does it not, that any great expense put upon banks in getting currency notes to issue is a great expense, hardship—in fact, oppression, to those citizens who do not use checks, drafts, etc., in their transactions, and who are practically compelled to use currency or do without banking accommodations?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. It follows, then, that a currency made expensive, or one that lessens the amount of loanable funds the bank has on any

given amount of capital and deposits, checks enterprise by making production difficult and expensive to those people who naturally and inevitably are shut up to the use of currency in getting bank accommodations instead of using checks, drafts, etc?

Mr. FAIRCHILD. That is true.

Mr. HILL. Do you mean by your answer to imply that there should be unlimited bank issues?

Mr. FAIRCHILD. No.

Mr. HILL. Does not the question asked by Mr. Walker involve that?

Mr. FAIRCHILD. I did not so understand it.

Mr. HILL. Will you kindly ask Mr. Walker to have that read again and in the light of that repeat your answer?

Mr. WALKER (reading the question again). That does not involve quantity at all. Do you wish to change your answer?

Mr. FAIRCHILD. No.

Mr. WALKER. It follows, then, that by issuing true bank currency a bank can make its loans to the people patronizing it at as much lower rate of interest than it could if it had only its capital and deposits to lend, and no currency, as the currency it has in circulation bears to the whole amount of its loans and discounts, and pay the same dividends on its capital stock?

Mr. FAIRCHILD. I should say that by the amount its circulation increases its resources it is enabled proportionately to give a greater accommodation to its customers and, necessarily, at a less rate.

Mr. WALKER. Compelling a bank to buy bonds at par to secure its currency notes, even if the bank secures notes to the par of such bonds, depletes its loanable funds, as compared with the true bank currency issued against its assets, by every dollar it pays for such bonds, does it not?

Mr. FAIRCHILD. I think so.

Mr. WALKER. Then compelling banks to use "bond-secured" currency compels the people borrowing of such banks to pay a higher rate of interest as compared with banks issuing true banking currency against their assets, as is done in every other country, in proportion to the amount of such currency the bank uses in comparison to its whole loans and discounts?

Mr. FAIRCHILD. It seems to me that is very much the same as the other question. I would repeat my answer to the other question.

Mr. FOWLER. Mr. Fairchild, if a banker to-day had \$100,000 of legal tenders and should buy \$100,000 of 2 per cent bonds and deposit the 2 per cent bonds and take \$100,000 of national-bank notes home with him, he is just where he started from?

Mr. FAIRCHILD. Exactly.

Mr. FOWLER. If the banker who has \$100,000 of national-bank notes in his bank this morning, having had \$100,000 of legal tenders yesterday morning, is allowed now to issue credit currency upon precisely the same terms, he would be exactly in the same position as to profits plus the interest on his bonds. If he is allowed to issue credit currency precisely as he was allowed if he had not bought the bonds, would not he be just where he was before he bought the bonds except that he would have the interest on the bonds?

If a man had \$100,000 and loaned it to his neighbors, that is the capital of his bank. They will get \$100,000. Then if he was allowed to issue \$100,000 upon his capital in notes and should loan them to his neighbors, they would get another \$100,000. That would be \$200,000. If he takes \$100,000 and buys bonds and receives circulating notes upon

those bonds, he would loan to his neighbors \$100,000. Now, so far the neighbors get \$100,000 less by that process than they would by the first.

Mr. FAIRCHILD. I do not quite follow that, how you buy these bonds, say \$100,000, and still have \$200,000 left to loan with.

Mr. FOWLER. When the banker gets that \$100,000 of national-bank notes he can loan that \$100,000 of national bank notes upon identically the same terms as he actually loans the greenbacks?

Mr. FAIRCHILD. Yes.

Mr. FOWLER. He receives, then, into his bank \$100,000 of notes from the people of that neighborhood. Is he not just as much entitled, then, to issue \$100,000 credit currency as he was when he had the greenbacks which would only produce \$100,000 of the notes of his neighbors?

Mr. FAIRCHILD. Yes. Now, the difference in the two things would be when he loaned his \$100,000 first, which would be loaned out at the current rates of interest in that neighborhood. I do not understand that proposition, I must say. I do not understand how you can have your cake and eat it out of that transaction.

Mr. FOWLER. But you do it; you eat the cake just the same and have the 2 per cent on the bonds besides; and according to Mr. Walker's proposition the people would get their money just that much cheaper.

Mr. FAIRCHILD. If that is so, it is a good thing; but I do not understand it.

Mr. FOWLER. I will put this to you: A bank that has \$100,000 of greenbacks can only procure as a return for them \$100,000 of the notes of the people of the neighborhood?

Mr. FAIRCHILD. That is all.

Mr. FOWLER. If, instead of loaning these greenbacks, they brought them to Washington and purchased \$100,000 of 2 per cent bonds and deposited the bonds, and they gave him the par of those bonds for circulation and he went home, he could loan the \$100,000 of national-bank notes to identically the same people and get the identical notes he could with the greenbacks?

Mr. FAIRCHILD. Yes, sir.

Mr. FOWLER. He is in just as good a position after he has loaned his national-bank notes to issue \$100,000 of credit notes as he was before, when he had the notes which he had obtained from the greenbacks?

Mr. FAIRCHILD. That would seem so.

Mr. MITCHELL. That presupposes, of course, that they have the securities on which to issue this additional currency of which Mr. Fowler has spoken.

Mr. FOWLER. The notes of the people are the same.

Mr. WALKER. Mr. Fairchild, a bank starting with \$100,000 of capital and investing \$100,000 in greenbacks has no other fund to loan but greenbacks?

Mr. FAIRCHILD. That is all.

Mr. WALKER. He comes to Washington with his greenbacks and buys \$100,000 of national-bank notes and goes back home, and he has nothing to loan but the same amount of \$100,000 of national-bank notes?

Mr. FAIRCHILD. That is all.

Mr. WALKER. If in addition, he is allowed to issue \$100,000 against his capital, making \$200,000 of notes in all, then he has of course the \$200,000 to loan. That proposition is self-evident. Is there any bill before this committee which permits a bank to issue \$200,000 of currency notes on \$100,000 of capital?

Mr. FOWLER. Yes.

Mr. WALKER. Your bill?

Mr. FOWLER. Yes, sir—assuming that the first \$100,000 is secured by Government bonds.

Mr. NEWLANDS. Could you get \$300,000?

Mr. FOWLER. No, sir.

Mr. WALKER. We will review this problem again. If a bank has \$100,000 of capital and buys \$100,000 of bonds, and it brings them here and gets \$100,000 against its capital, having \$100,000 of bonds and \$100,000 of national-bank currency, it then has only \$100,000 to loan?

Mr. FAIRCHILD. That is all.

Mr. WALKER. I do not see how Mr. Fowler can insist that the bill provides first that they should put the \$100,000 in bonds and then again they shall put \$100,000 in greenbacks. Is that the proposition?

Mr. FAIRCHILD. That is not the proposition. Mr. Fowler's proposition, if I understand it, is that a man has \$100,000 of greenbacks and the Government takes those up for \$100,000 of bonds, on which they agree to pay 2 per cent, and then it gives to the bank, as against those bonds, \$100,000 of currency, which you call "Government-bond notes." Then he is in the same position as when he started, because he has no other coin or greenback except that which is supported by a specific bond. The Government gives him 2 per cent on those greenbacks and the other greenbacks do not give him anything. He takes those greenbacks and loans them to his neighbors and he gets \$100,000 of obligations of his neighbors, and those obligations are the basis of the issuance of the other kind of notes, which are called "national-bank notes."

Mr. WALKER. Making \$200,000 currency from \$100,000 of capital?

Mr. FAIRCHILD. It makes \$100,000 of bond notes, but you come out in exactly the same position as if you had not had the bonds at all, except, as Mr. Fowler says, the bank will be getting 2 per cent on those bonds.

Mr. FOWLER. And of course the people get the benefit of that, according to Mr. Walker's theory.

Mr. FAIRCHILD. But that would be the contribution of the Government toward the people of that region.

GRADUATED TAX ON CIRCULATION.

Mr. WALKER. Does not Mr. Fowler's bill provide a tax of 1 per cent on the first \$20,000 currency they take, and 2 per cent on the next \$20,000, and 4 per cent on the next \$20,000, and 6 per cent on the next \$20,000, and 8 per cent on the next \$20,000 of the total \$100,000?

Mr. FAIRCHILD. So I understand.

Mr. WALKER. Making an average tax of 4 per cent on the second \$100,000 it takes out?

Mr. FAIRCHILD. Yes; that is my understanding.

Mr. FOWLER. I will admit that. In the commission bill, Mr. Fairchild, it was your thought, was it not, that the banks would probably not exceed 60 per cent of credit circulation, and that the amount above that will be called "emergency currency"?

Mr. FAIRCHILD. No; we thought that the emergency circulation was that between 80 per cent and 100 per cent. If you would like to know what rough process we went through, I would say that we thought the banks in the rural districts would keep out 60 per cent pretty much all the time. We thought that the cities would not come up nearly to

that except on occasional years, not even every season. We thought the country banks would increase their circulation perhaps considerably over 60 per cent during the seasons, but that was our calculation as to the way it would work. We thought the country banks would keep in the neighborhood of 60 per cent going.

Mr. FOWLER. Will you explain to the committee why your commission thought it best to put up a 5 per cent redemption fund for that first 60 per cent rather than a tax graduated in order to be repressive as the amount of circulation was increased? You adopt the round 5 per cent redemption fund on the first 60 per cent—in fact, on all of it—before you begin the graduated tax, which you begin at 60 per cent?

Mr. FAIRCHILD. Yes, sir.

Mr. FOWLER. Will you please state to the committee upon what grounds your commission arrived at the conclusion that it was preferable to have a 5 per cent redemption fund to a graduated tax?

Mr. FAIRCHILD. I do not think that there should be any tax at all on circulation per se.

Mr. FOWLER. Why did you begin that 2 per cent at 60 per cent, for instance?

Mr. FAIRCHILD. In order that we might begin to have something to make an inducement to provide for an emergency. That was the general view of the commission, so that with the banks there would be an inducement. We thought that would raise the rate of interest in the necessary localities and would keep something in, and the banks could not pay it out unless there was an emergency, and therefore there was something left for the emergency.

Mr. FOWLER. Why did you put it at 2 per cent between 60 and 80?

Mr. FAIRCHILD. I can not give you any reason except that they begin in a smaller way at 60, and that was arrived at in a rough way, as perhaps wise to do.

Mr. FOWLER. Let me ask another question, whether or not, in your judgment, a tax—not as to the amount now, because this question of what the tax should be is something we all must really guess at, after all, leaving the final tax to be based upon experience—whether or not, in your judgment, a tax upon each 20 per cent that is issued from say \$20,000 to \$100,000 would have a tendency to drive the notes home and, when they had been driven home, have a tendency to retire them when not needed?

Mr. FAIRCHILD. It would have a tendency, of course, to repress that use of the bank's resources, but we thought that it was unfair to put the tax upon the bank notes, per se, because the bank note was a form of the bank's credit that was needed by the customers of banks in the rural districts, and that it was putting something on the tools that the customers of the banks wanted to use in rural districts which practically discriminated against those rural districts as compared with the cities where they wanted to use different kinds of tools. That was our motive in shifting the tax from the bank notes to the capital and surplus of the bank. We felt that it distributed the expenses of the system more justly and equably.

Mr. FOWLER. Do you not think that whether you put the burden in the form of tax on circulation or in the form of an immediate reserve of 5 per cent, it is still a burden on circulation, in a degree?

Mr. FAIRCHILD. No; I do not regard the two propositions in the same light at all.

Mr. FOWLER. I asked you if both are not a burden, only in degree?

Mr. FAIRCHILD. Of course, it is a burden, but I consider that the burden on the banks is the interest on the 5 per cent. You know this is to be returned to them as their notes are retired. It is not an absolute payment, it is merely a guarantee against them while they are outstanding. It has not gone from the banks, so the burden is the interest that they could have earned upon that 5 per cent. On the other hand, in return for that the bank that issues circulation to a large amount would be getting under our plan the support which came from a mutual guarantee of the banks which were not issuing such a large circulation, and we considered that would be an aid to the circulation. The thought was that it would be a certain benefit to the banks issuing it, the main object being the benefit to the community in getting a bank-note circulation upon which there would be no doubt cast, so it would perform its functions regularly and rapidly.

Mr. FOWLER. I want to say I am not necessarily a defender of the form in which I put this, but I am asking for information as to what led to this conclusion, because I am exceedingly interested in it.

Mr. FAIRCHILD. Of course there is a tax, but the measure of the tax is the interest on the 5 per cent.

Mr. FOWLER. Just a moment. Let us take a bank with \$100,000, and say that it issues 60 per cent without tax and puts up the 5 per cent on the \$60,000. In other words, it takes away from the people \$3,000 of loanable funds?

Mr. FAIRCHILD. Yes.

Mr. FOWLER. Then it would be 6 per cent the people would lose on that, would it not?

Mr. FAIRCHILD. Yes.

Mr. FOWLER. If that is true, would not that be greater than the tax I have advocated imposing on the circulation?

Mr. FAIRCHILD. That I do not know, I have not figured upon that.

BANKING UNDER THE FOWLER BILL.

Mr. COX. Mr. Fairchild, as I understand the system proposed by Mr. Fowler, you and I have \$100,000 of greenbacks and we come to Washington and deposit it and get \$100,000 of national-bank notes?

Mr. FAIRCHILD. We buy the bonds for it.

Mr. COX. We buy the bonds first and then we get \$100,000 of national-bank notes and go back to our country to the bank. That class of notes is secured by the bonds?

Mr. FAIRCHILD. Yes, sir.

Mr. COX. We take the \$100,000 home and loan it to our people at 6 or 8 per cent, according to the law, and we get their notes into our vaults for \$100,000, and thereupon we take out another \$100,000, of circulation upon those notes. Then we conclude we will increase our capital stock to \$200,000.

Mr. FAIRCHILD. I understand.

Mr. COX. We come back with another \$100,000 of greenbacks and get our bonds and national-bank notes, and we go back with that \$100,000 of notes and loan them out and get in another \$100,000 of notes, and issue another \$100,000 of currency. Is not that the result?

Mr. FAIRCHILD. I would like to think about that. You have to buy these bonds with greenbacks.

Mr. COX. But we get that back in national-bank notes. Through the instrumentality of the bonds we have bought with our greenbacks \$100,000 of circulation of national-bank notes. Let it set at \$100,000.

We get \$100,000 with our greenbacks by purchasing the bonds and then we get the \$100,000 of national-bank notes, based upon the bonds?

Mr. FAIRCHILD. Yes.

Mr. COX. We go back to our country or city place of banking and we loan out that \$100,000, and on that \$100,000 of notes discounted in the bank I understand we can take out another \$100,000 of circulation?

Mr. FAIRCHILD. That is Mr. Fowler's plan.

Mr. COX. Then I do not want anything more to do with it.

Mr. FAIRCHILD. Mr. Cox supposes there is actually \$100,000 of these last notes that come in?

Mr. FOWLER. It is a question of how much you assume would be normally taken out.

Mr. COX. I am talking about the power the bank has to get the money. Following that idea the banker can get \$100,000 of national-bank notes with the greenbacks, through the processes of banking, and then can issue another \$100,000 upon the notes got for these greenbacks loaned out. That is admitted. Now, then, he draws 2 per cent interest on his bonds. He loans out the first \$100,000 at 6 per cent; then he gets another \$100,000 on his notes, and he loans that out at 6 per cent, making 12 per cent, with 2 per cent more on the bonds, and he has only \$100,000 of money invested in this bank. He never would stop. You put me into banking that way and see.

Mr. WALKER. Mr. Fairchild, the statistics collected by the Treasury Department show that in Vermont all the banks combined (not a single bank) kept in circulation an average of 103 per cent of the currency to its capital. You will find the statistics on page 441 of the hearings before this committee in 1896. Old Virginia kept out 96 per cent; North Carolina 95 per cent. You will find by turning to page 458 that 55½ per cent of the country banks outside of Boston, which had the least currency, had over 64 per cent; Ocean bank, Newburyport, 91 per cent to capital; Powow River, Salisbury, 110 per cent; Brighton, 112 per cent; city of Cambridge, 96 per cent; Malden, 87 per cent. This indicates, does it not, that the poorer sections of the country, the agricultural districts, like Vermont and North Carolina and Virginia, can keep in circulation if they are allowed to do so, about 100 per cent of currency to capital?

Mr. FAIRCHILD. It shows that they did.

The CHAIRMAN. Is it not a fact that the average of the banks in the country can keep in circulation nearly double the currency at certain seasons of the year over what they can at other seasons?

Mr. FAIRCHILD. I do not know the exact proportions.

Mr. WALKER. But usually much more?

Mr. FAIRCHILD. It is usually much more.

The CHAIRMAN. Do you accept the figures of the actuary of the Treasury on a given arithmetical proposition?

Mr. FAIRCHILD. Well, it depends upon the actuary.

The CHAIRMAN. Say the present actuary of the Treasury, who does all the figuring for the Government, involving millions of dollars. Is it reasonable to suppose his figures are accurate?

Mr. FAIRCHILD. The actuary I knew is dead. When I heard Mr. Gage dispute the figures of his own actuary yesterday, it makes me a little prudent.

Mr. WALKER. Mr. Gage merely stated the proposition in a certain form, and I only wanted to correct the form of his statement. I think what Mr. Gage intended is accurate, but in the form in which he put it

it was not technically correct. It is reasonable to suppose the actuary who has passed through two or three Administrations with approval would not be retained now unless he is a good actuary, is it not?

Mr. FAIRCHILD. I presume so.

Mr. WALKER. My question is, whether it is to the advantage of a bank to take out currency to the amount of 200 per cent under a law that makes a loss to the bank of three-tenths of 1 per cent, as does the Fowler bill, in a reserve city if they have out 80 per cent of their currency in circulation?

Mr. FAIRCHILD. No, sir; of course it is not to their advantage if they lose money on it.

Mr. WALKER. That is in a 4 per cent locality. In a 4 per cent locality outside of reserve cities it shows a gain of eight one-hundredths of 1 per cent. Do you think a bank would dare to take out currency at that profit if they had 80 per cent in circulation, and would they take it out? Do you think it would be an advantage to them so they would take out the currency?

Mr. FAIRCHILD. They make eight one-hundredths of 1 per cent?

Mr. WALKER. When 80 per cent of their currency is out?

Mr. FAIRCHILD. As against loaning their money directly?

Mr. WALKER. Yes.

Mr. FAIRCHILD. And loaning how much directly?

Mr. WALKER. Loaning on \$100,000 capital, say, of an ordinary bank. The question of currency does not affect any of their other loans at all. It does not increase or decrease, and this is purely a question of profit on currency, or whether they would take out currency at a gain of only eight one-hundredths of 1 per cent when they had 80 per cent of circulation, and when it was below 80 per cent they actually lose at the rate of 3.92 per cent in a 4 per cent locality. Of course they lose the interest on the currency which is in their possession when you get down below 80 per cent.

Mr. FAIRCHILD. Your question is whether that would be an inducement for banks to take it out?

Mr. WALKER. Yes; and make eight one-hundredths of 1 per cent if they had 80 per cent in circulation; but of course if it got below 80 per cent they would lose on it when it is back in the bank?

Mr. FAIRCHILD. I would not like to estimate about it. I do not quite get into my mind now all the elements which enter into that, and I would not like to answer.

Mr. WALKER. The elements remain identical in any case.

Mr. FAIRCHILD. I was wondering in regard to that. There might be many inducements surrounding it. As a bald proposition you would say not, but probably it might induce business into their banks, and there might be other motives. But I could not answer very usefully upon that now.

PROFIT IN BANKING.

Mr. WALKER. Where the business of banking pays a larger profit than other business of like labor and risk, will not capital be invested in new banks in competition with existing banks until the profits in banking are reduced to the general average of incomes in other investments?

Mr. FAIRCHILD. That is the natural law of such things, in banking as in anything else.

Mr. WALKER. Is it not within your knowledge that in Canada, Scot-

land, Germany, and France the rates of loans and discounts all over those countries are very nearly the same where the same risk is incurred and the same time and amount is involved?

Mr. FAIRCHILD. That is the case in Canada, and I understand in Scotland also.

Mr. WALKER. Is it not the general opinion of students of economics, and especially of banking, that the freedom of issuing "true bank currency" against assets is what keeps the rate at about the same all over the country, because of such vast amounts of currency being used in the country in excess of what can be used in the cities?

Mr. FAIRCHILD. That, combined with the branch bank system, I have heard given as a reason; and both Scotland and Canada have that to a large extent.

Mr. WALKER. France has also. Has Germany?

Mr. FAIRCHILD. I think the banks have their agencies through Germany, but I am not positive about that.

Mr. WALKER. It is because the branches in the country allow them to circulate such an enormous amount of currency that it is possible. It is the currency privileges of banking that they could not exercise if they were strictly a city bank; but with branches out through the country it enables them to circulate their currency, which keeps the rates down in the country as compared with the city?

Mr. FAIRCHILD. I think that has a great effect upon it.

Mr. WALKER. Assuming that the money made on its deposits by a bank with a capital of \$100,000 was exactly equal to its expenses of every name and nature, including the current redemption of its currency notes, if it has any, and assuming the bank has no currency notes to issue and has its \$100,000 funds equal to its capital loaned to customers on notes, each having three months to run and discounted at the rate of 6 per cent per annum, the net profit on its business would just equal 6 per cent on its capital stock, would it not?

Mr. FAIRCHILD. Its deposits pay its expenses—

Mr. WALKER. Of every name and nature. It has \$100,000 capital to loan and no currency?

Mr. FAIRCHILD. It will get 6 per cent, of course.

Mr. WALKER. If it can take out \$100,000 currency and keep it in circulation, it can make loans at 3 per cent and make the same amount of profit?

Mr. FAIRCHILD. Exactly.

Mr. WALKER. Is it possible for city banks without branches to circulate very much currency—those banks whose business is what might be called a strictly city business?

Mr. FAIRCHILD. It is not.

Mr. WALKER. Practically it can circulate none; it comes back in the clearing house the next morning?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Is not this 2 per cent tax on currency between 60 per cent and 80 per cent, in view of what I have said about Vermont and Virginia, a restriction working a hardship, and does it not work exclusively to the expense and hindrance of the circulation in country districts, where they actually need considerable above the 60 per cent?

Mr. FAIRCHILD. I think that is the objection to it. That is my objection.

Mr. HILL. Did you see a telegram that Mr. Gage had yesterday from Mr. McLeod, superintendent of the banking department of Canada?

Mr. FAIRCHILD. I did not.

RATE OF INTEREST IN CANADA.

Mr. HILL. Mr. Gage sent, by request, a telegram asking the interest rate, and Mr. McLeod, superintendent of the banking department of Canada, telegraphed back a reply which Mr. Gage showed to me and intended to submit to the committee, but it was not called for. The statement was that in the central cities of Canada the rate was uniformly 6 per cent, and in the remoter country districts money was frequently loaned at 7 per cent; that on large trade transactions, or on trade transactions in money centers, it was loaned at $5\frac{1}{2}$ per cent, showing a variation of 25 per cent difference of interest rate, according to the locality, in Canada. I want to ask you as a president of a trust company in New York what rates have come to your knowledge in the loaning of Canadian funds in New York City at any time within your experience?

Mr. FAIRCHILD. I have no information.

Mr. HILL. Do they loan on call in New York City, and if so do not they accept call-loan rates in New York City?

Mr. FAIRCHILD. If they do loan.

Mr. HILL. Then the Canadian system has not secured a uniformity of interest rate for Canada even, in view of the rate of 7 per cent in the country districts and $5\frac{1}{2}$ on trade transactions in money centers of Canada, and a generally uniform rate of 6 per cent, while call-loan rates are from $1\frac{1}{2}$ to 3 per cent, which is a fair average in New York City. So it would seem the Canadian system has not produced a uniform interest rate, if those facts are true?

Mr. FAIRCHILD. Evidently not.

Mr. HILL. Do you know of any way by which it is possible, by any form of banking, to secure uniform rates of interest? Are not interest rates dependent entirely upon the circumstances existing at the time they are made?

Mr. FAIRCHILD. They are.

Mr. FOWLER. Mr. Fairchild, the money that the Canadian banks loan in New York is usually their reserve funds?

Mr. FAIRCHILD. I do not know.

Mr. FOWLER. Is it not altogether probable that it is the reserve funds they offer on call?

Mr. FAIRCHILD. I do not know.

Mr. FOWLER. Is it not a fact the range of loans from New York to our country districts ranges from 1 to 36 per cent per annum, while in Canada it ranges from 5 to 7 per cent?

Mr. FAIRCHILD. That is a matter of statistics.

Mr. WALKER. Where currency is issued as it is to-day, does not the bank actually lose on each dollar of currency not in circulation an amount equal to its rates of loans and discounts, less the profit the bank would make were all its currency notes in circulation?

Mr. FAIRCHILD. Yes; that is true.

Mr. WALKER. Does not any system of currency that makes the currency held in the vaults of a bank an actual loss to the bank under any circumstances compel the bank to increase the loan and discount rates to the people to an amount equal to the losses made on the currency that it holds in its vaults?

Mr. FAIRCHILD. It does.

INTERINDEBTEDNESS OF THE UNITED STATES.

Mr. WALKER. I will now ask a question on a different line. It is assumed that banks are not a help to the people because they increase their indebtedness; that is to say, we hear the proposition stated on the floor of the House and other places that indebtedness is an indication of poverty. I want you to look at this table [handing him a table]. I have taken great pains by correspondence and otherwise and by my own estimates and estimates which I have obtained from others, and by the authorities given, to state the total sum of indebtedness.

Table showing the indebtedness of the United States in 1892, prepared by Hon. J. H. Walker, chairman of Committee on Banking and Currency.

Census of 1890, assessed valuation: Assets of the country, real and personal property.....	\$25,000,000,000
Secretary of Treasury:	
Gold and silver coin	1,200,000,000
Total	26,200,000,000
National debt less cash in Treasury	852,000,000
Census of 1890:	
State debt less sinking fund.....	223,000,000
County debt less sinking fund.....	142,000,000
Town and city debt less sinking fund.....	470,000,000
Porter: School-district debt.....	38,000,000
Poor's Manual, railroad indebtedness:	
Funded debt.....	5,106,000,000
Unfunded debt	376,000,000
Current debt	271,000,000
New York Financial Review, 1890: Miscellaneous stocks and bonds..	582,000,000
Farm mortgages	1,086,000,000
Home mortgages.....	1,047,000,000
Other town and city property mortgages	3,887,000,000
Estimated debts of merchants.....	5,000,000,000
Debts of individuals and families	400,000,000
Comptroller of the Currency:	
Deposits in mutual savings banks	1,402,000,000
Deposits in stock savings banks.....	252,000,000
Deposits in private savings banks	96,000,000
Deposits in loan and trust companies.....	353,000,000
National banks	1,588,000,000
State banks	557,000,000
New York Daily Commercial Bulletin:	
Annual fire-insurance losses, \$125,000,000; life of policy, three years	375,000,000
Marine insurance	50,000,000
Life insurance in force	3,543,000,000
Industrial business insurance	313,000,000
Benevolent associations and fraternal orders.....	6,000,000,000
* Interindebtedness in the country.....	34,208,000,000

The assessed value of property in the United States in 1890, as shown by the census, was \$25,000,000,000; the gold and silver coin was \$1,200,000,000. That makes an assessed valuation in the country of \$26,200,000,000. Of course the valuation as given in the census, the real valuation, is between \$60,000,000,000 and \$70,000,000,000. In view of the indebtedness which is all a gold indebtedness, and in view of the daily transactions of the banks, which amount to \$300,000,000 or \$400,000,000, besides all other money transactions, how can the retirement—the mere fact of retirement—of \$200,000,000 of greenbacks, while, by your statement and Secretary Gage's, the whole \$1,200,000,000

* See page 218.

will still be in circulation and demanding gold directly or indirectly, materially affect the situation?

Mr. FAIRCHILD. Affect the situation in what way?

Mr. WALKER. Affect the gold situation, the demand for gold or gold redemption? We must redeem in gold, either by banks or by the United States Treasury.

Mr. FAIRCHILD. The scope of your question is, Whether the retirement of these greenbacks is going to put any materially greater strain upon the gold resources of the country?

Mr. WALKER. Whether it is going to lessen the strain on the gold resources. Secretary Gage said he thought there would then be \$1,200,000,000 in circulation, and all of it must be maintained at par with gold.

Mr. FAIRCHILD. The retirement of greenbacks will lessen the strain upon the gold.

Mr. WALKER. Assuming the Treasury is still responsible for gold redemption and all our paper money as it is now, how can changing the form of the demand upon the Treasury from the so-called actual legal-tender notes to a bank note, which must also be maintained with gold and is just as much a certificate and promise—how can that change the Treasury situation?

Mr. FAIRCHILD. I do not see that the Treasury would have anything to do with it if the greenbacks were retired.

Mr. WALKER. Mr. Gage has said the Treasury would have to directly or indirectly redeem all the silver and paper which was presented for the gold, and the silver certificates and the national-bank notes.

Mr. FAIRCHILD. I do not see that we would have to redeem the national-bank notes under his plan.

Mr. WALKER. Or yours either?

Mr. FAIRCHILD. They would not have to redeem under ours.

Mr. WALKER. Who would redeem?

Mr. FAIRCHILD. The banks.

Mr. WALKER. How?

Mr. FAIRCHILD. They use the Treasury offices simply as agencies and the Treasury does not redeem them.

Mr. WALKER. Will you turn to the provision of your bill which requires the banks to redeem in gold?

Mr. FAIRCHILD. It requires them to redeem in lawful money, and the only lawful money would be gold.

Mr. WALKER. You destroy all other lawful money?

Mr. FAIRCHILD. Except the silver dollars.

Mr. WALKER. You do not keep silver certificates in circulation?

Mr. FAIRCHILD. We would keep them in circulation if the people want them, our idea in doing that being that more silver dollars would remain in circulation in a certificate form than in the form of coin. That provision was made because there was apparently a moderate surplus of silver dollars to perform the functions we give them, namely, to give a circulating medium below \$10 to the country. At the present time there are about \$50,000,000 more of silver dollars than equal the amount of all our notes below \$10. Therefore we had the theory that more silver dollars, more money below \$10, would be used by the people to be carried in their pockets if such a portion as they wanted was in paper form. Therefore, in order not to have silver dollars come back to the Treasury in undue proportions, we propose to continue the silver certificates. We do not care anything about the silver certificate, but we think it would be to a certain degree a relief to the Treasury in

keeping more silver out of its ownership. The only lawful money, in the operation of our bill, if the greenbacks were retired, would be the gold and these silver dollars, and as I have said, there being no circulating medium of any kind less than \$10 except the silver, whether in certificate form or dollar form, our belief was that it would be physically impossible for any considerable portion of it to be presented to the Treasury for redemption in gold any more than halves or quarters are presented in embarrassing sums to day, although they are redeemable just the same; that no bank would present silver dollars for redemption in gold, because it would need to retain a considerable amount of them in its vaults in order to meet the needs of its customers for the smaller forms of money.

So we felt that the silver dollars made to take their place would be satisfactory money, everybody knowing that whenever he wanted he could get gold for them. The instances when they would want gold for them would be very rare, like instances where people may want halves or quarters redeemed simply as a matter of convenience. But the supplying of the gold to meet our exchanges abroad would not be through the silver dollars at all, but would be through the other resources of the bank, and I am very firmly of the opinion that that surmise is correct.

INTERINDEBTEDNESS AN EVIDENCE OF INTEGRITY AND WEALTH.

Mr. WALKER. Is it not generally held by economists, Mr. Fairchild, that the interindebtedness of a people, at a low rate of interest, instead of being an evidence of poverty or of hard conditions, is one of the most certain indications known of the average integrity, education, wisdom, and wealth of its people?

Mr. FAIRCHILD. It is.

Mr. WALKER. As the integrity, education, wealth, and peaceful conditions are measured, the use of paper money proportionately increases, and that of coin decreases. Is not that true?

Mr. FAIRCHILD. Well; I would not like to say that quite so broadly. The use of paper is another advance in more perfect civilization and the economy of capital, in my judgment, and the greater the faith of people one in another, the higher the civilization will be; and all these conditions you have spoken of tend to produce that faith.

Mr. WALKER. Except for our war of the rebellion, we have had peace practically since the war of 1812—and that was not much of a war—while in France the Government has been constantly overturned, and a feeling of unrest has existed there; and England is in a state of war. They are engaging in some kind of a war nearly all the time, and you know what the conditions have been in Germany; while in Scotland, Canada, and this country there has been comparative peace. My question involves the fact of the people's condition. In view of all the facts, do not the paper money and assured peace go together?

Mr. FAIRCHILD. I should think they did.

Mr. WALKER. Are not the currency notes issued by banks every way sound, and quickly available, with the guaranty for the payment in case of insolvency of the bank written in the statute authorizing the issue of them, and appropriating the money necessary to pay for and create a safety fund, to pay them—in every way as safe as a currency created by bonds?

Mr. FAIRCHILD. I should say so.

Mr. WALKER. Then why require bonds, when they take the capital

right away from the locality and deplete the bank's power of loaning by the amount of capital it takes for the bonds?

Mr. JOHNSON. You deny that; do you not, Mr. Fowler?

Mr. FOWLER. Absolutely.

Mr. WALKER. I hope that will be put in the record, because it is valuable, but at the same time I would like an answer.

Mr. FAIRCHILD. It is an obligation of the Government in one case as it is in the other, I think.

FLUCTUATION IN THE PRICE OF BONDS.

Mr. WALKER. Is it not certain that the price of bonds of the United States will fluctuate in price as much in the next ten years as it did between 1880 and 1890?

Mr. FAIRCHILD. Certainly it will.

Mr. WALKER. Fluctuate as much as they did?

Mr. FAIRCHILD. I can not guess about that. If I could, I could make money.

Mr. SPALDING. From your familiarity with the business of banking and bonds in New York, can you estimate approximately the number of bonds that are held by the present national banks?

Mr. FAIRCHILD. I can not.

Mr. SPALDING. In round numbers. I am not particular.

Mr. FAIRCHILD. That is a matter of statistics.

Mr. SPALDING. It is about \$500,000,000, is it not?

Mr. FAIRCHILD. No.

Mr. SPALDING. \$400,000,000?

Mr. FAIRCHILD. I do not remember the figures at all.

Mr. SPALDING. I think it is about that. Well, that is not the point I am making. In the event of the success of the monetary commission's plan, would it have any effect on the price of the bonds of the United States Government, in your opinion, and if so, why?

Mr. FAIRCHILD. We tried to graduate that. Getting at the amount held, and looking at the way bonds were held among the banks, we fixed the amount of 25 per cent of the capital in that way, with a view of having it have as little effect as possible on the rise or fall of bonds.

Mr. SPALDING. What effect, in your opinion, would there be in the adoption or the passing of a law in which the bonds were not used as a security for the circulating medium at all?

Mr. FAIRCHILD. Oh, it might affect their price a little. I doubt if it would affect it much now; perhaps 1, 2, or 3 per cent. I do not know about that.

Mr. WALKER. Your bill is of such a nature that you claim it would not very materially affect the price of bonds. If it had any tendency, it would make them higher, would it not?

Mr. FAIRCHILD. Possibly a little, but looking at the distribution of the bonds, we fixed the amount first at 30 per cent, and then reduced it to 25 per cent on that ground.

Mr. WALKER. Then the requirement to purchase bonds in order to get currency has a tendency to make bonds higher priced?

Mr. FAIRCHILD. That would be the tendency.

Mr. SPALDING. In case of the passage of the Walker bill—and its becoming a law—in your judgment would it have any material effect upon the bonds of the United States as regards price?

Mr. FAIRCHILD. I would not like to answer that.

Mr. SPALDING. You did answer it virtually, because I asked if any bank measure that did not use bonds as a security was adequate, and in your judgment it would lower them but slightly, as I understood you?

Mr. FAIRCHILD. That was my surmise about it.

Mr. SPALDING. You could not say anything else. I realize that other interests might interfere, but aside from that, taking this as one item, how much effect would it have on the bill, on any bill that did not use bonds for security for circulation?

Mr. FAIRCHILD. To answer that would be guessing on my part.

Mr. WALKER. In reply to Mr. Spalding, the bonds in the United States banks, by the last report of the Comptroller of the Currency, are \$227,484,000. That was in December—December 6, 1897.

Mr. SPALDING. That is only in national banks?

Mr. WALKER. Yes. I wish you to look carefully at this table,* which I will publish, and answer this question: Whether it is not fair to say that a currency that shrinks as bonds appreciate and that increases as bonds depreciate is a freak currency?

Mr. FAIRCHILD. Well, I should think that it is a very bad currency, but exactly what the financial and scientific application of "freak" is I am not prepared to say.

OUR CURRENCY SYSTEM THE WORST IN THE WORLD.

Mr. WALKER. In testifying before the committee last year, after considerable discussion and answering questions upon the point, the Comptroller of the Currency, Mr. Eckels, put his appreciation of the financial system in these words: "Yes; the United States has the worst financial and currency system of any leading nation." What do you think about our financial and currency system, as compared with those of other leading nations of the world?

Mr. FAIRCHILD. I think it is the worst.

Mr. WALKER. You understood the question to be comparatively and not specially or personally denouncing our currency, but that, as compared with other nations, it is the worst of any you know of among leading nations?

Mr. FAIRCHILD. Yes.

[Thereupon, at 12:30 p. m., the committee took a recess until 1:45 p. m.

The committee having reassembled, Mr. Fairchild continued his statement.]

VISIBLE SUPPLY OF GOLD.

Mr. NEWLANDS. Mr. Fairchild, in referring to the gold stock of this country, your commission declares, upon the authority of the Treasury Department, that the total gold stock in the country is about \$723,000,000. Of that amount I understand you to say that the visible stock is somewhere near \$400,000,000?

Mr. FAIRCHILD. I forget about that. Does not the report show for itself what it is?

Mr. WALKER. \$412,000,000.

Mr. NEWLANDS. I do not understand that the report states the visible supply, but I understood you and Mr. Gage to assent to the statistics of Mr. Walker, the chairman of the committee, with reference to the visible stock of gold.

Mr. HILL. Will you allow me to put one or two questions?

* See Table D, page 39, Hearings and Arguments Before the Committee on Banking and Currency, Fifty-fourth Congress.

Mr. NEWLANDS. Certainly.

Mr. HILL. Mr. Fairchild, I will ask you to turn to page 2 of the "Comparative statement of the principal features of the Walker, Fowler, Gage, and Monetary Commission bills for the reform of the currency." I would like to ask you, referring to the first section, on page 2, in view of your experience as Secretary of the Treasury, whether you think that the legal-tender notes of the United States, drawn with the note on the Government on one side of it and the note of the bank on the other, would have a tendency that would be dangerous in this respect: That in a government of the people might not the drawing of such a note and throwing it upon the banks to the amount of \$200,000,000 ultimately lead to still further issue of notes thrown upon the banks?

Mr. FAIRCHILD. It might.

Mr. HILL. What would be your opinion in regard to that matter in view of your experience, whether it would or would not have that tendency?

Mr. FAIRCHILD. I could not say as to that, but it would have some tendency of that kind.

Mr. HILL. Have you any question as to the legality of such a form of note issue, if it was enacted into law by Congress? Have you given any consideration to the question as to whether it would be legal, by the delegating of the power of redemption to private corporations?

Mr. FAIRCHILD. I have not.

USE OF SILVER UNDER THE COMMISSION BILL.

Mr. HILL. I notice in these four bills, showing the resulting currency conditions, that two of them provide for the use of metal—gold and silver—below \$10, and two of them provide for the use of silver certificates. In drawing your bill you provide for the use of silver certificates?

Mr. FAIRCHILD. Yes.

Mr. HILL. Will you give the reasons of the commission for taking that course?

Mr. FAIRCHILD. That was in order to keep in the pockets of the people as large an amount of silver as possible, in one form or another, and thereby keep it from going into the Treasury, our opinion being that under the habits of our people more would be retained in the pockets of the people in the certificate form than in the coin form.

Mr. HILL. And in making the limit \$10 you assumed that it would practically be held away from redemption.

Mr. FAIRCHILD. We thought that would practically be the case.

Mr. HILL. I understand that was the reason you fixed the limit at \$10. Some of these other bills contemplated only \$5.

Mr. FAIRCHILD. Yes. We find, as you will see by our report, that of the money circulating medium of the country all but an amount equal to the amount of silver dollars in existence, plus \$50,000,000, was in notes under \$10. Our report says that.

Mr. HILL. I understand both you and Mr. Gage—you may remember his reply—said that there would be no objection to the optional feature of the secured currency between 25 per cent of the capital and the total amount of the capital; that there would be no objection to putting into actual practice the option of the banks to use either.

Mr. FAIRCHILD. I think there is no substantial objection to it; no important objection to it.

BANK-NOTE REDEMPTION IN GOLD COIN.

Mr. HILL. In one of these bills, I do not care to specify which one, it is expressly stipulated that all redemption shall be made in gold coin.

Mr. FOWLER. How is that?

Mr. HILL. It is specifically provided that redemption shall be made in gold coin.

Mr. FAIRCHILD. In which bill?

Mr. HILL. Mr. Fowler's bill. Do you believe that it would be a wise course to pursue to make all bank redemption specifically in gold coin, eliminating the other legal tender of the country—silver and the lawful money, silver certificates?

Mr. FOWLER. Limit it to the notes, of course, and not the deposits.

Mr. FAIRCHILD. My idea in all this was that the Government should not in its laws discriminate against any of the money which it had in circulation, because the tendency of so doing was to drive it into the Treasury.

Mr. HILL. But that redemption should be in lawful money?

Mr. FAIRCHILD. That was my idea.

Mr. HILL. And that the money of the banks should be fixed by the standard of value of the Government and the Government conditions, rather than that the banks themselves should attempt to control it?

Mr. FAIRCHILD. Well, the bank currencies would be no better than that which the Government was furnishing.

LIMIT OF NOTE ISSUES.

Mr. HILL. On what principle have you fixed the limit of note issues? I am asking this question because there is a marked difference between the bills which are now pending before the committee on that subject, and I assume that the commission had some theory on the subject.

Mr. FAIRCHILD. The theory was that it was quite generally done, that it would be sufficient for the purpose, and that it would be safer.

Mr. HILL. You say you think it would be safer. Do you think it would be wise to fix any limit to the issue of bank currency?

Mr. FAIRCHILD. I have not thought that out very thoroughly, Mr. Hill. Some members of our commission thought that the limit should not be regulated by the capital, but bear a proportion to the assets of the bank. But in the end we concluded that this plan would be better.

Mr. HILL. Because you thought it would be safer?

Mr. FAIRCHILD. We thought it would be safer.

BANKS TO MAINTAIN PARITY.

Mr. HILL. Will you turn to page 6 of the "comparative statement" alluded to? The first item there reads as follows: "In gold, silver, or legal tender paper, but parity must be maintained under penalties." Will you tell me of any way, in your judgment, that the banks of this country can maintain parity, and what is your idea of the meaning of the expression?

Mr. FAIRCHILD. I think that they could maintain parity by giving their depositors or those who wanted to draw this money in cash, or the note holder who wanted his notes redeemed, their choice. If they gave them the choice I think that the effect would be to maintain under all ordinary circumstances, and within the resources of the

banks, of course, the parity of various kinds of money, just in the same way as the parity of silver with gold is now maintained by the Government, giving the public creditor the choice of what he will receive from the Treasury and receiving from the public debtor what he chooses to pay us.

Mr. HILL. Then you think that the maintenance of parity in this case means that the holder of the notes shall have the right to demand any form of legal tender, and that it devolves upon the bank to pay that form, to pay in gold or silver, or silver certificates, if those are demanded?

Mr. FAIRCHILD. I think that would be the rule for depositors as well as others.

Mr. HILL. In paying out the money under the terms of the bill, they would have to pay it out in such a way as to maintain the parity and do it under a penalty. What I am trying to find is what the meaning of that expression is. I wondered whether you understood the bill.

Mr. FAIRCHILD. It means, then, that the banks must carry silver as well as their own note issues.

Mr. HILL. I am trying to find out what the responsibility is that the banks would be laboring under by that clause.

Mr. FAIRCHILD. I do not know as to the penalty.

Mr. HILL. The penalty is fixed.

Mr. FAIRCHILD. I think you could put a penalty on them if they should decline to give their creditor a choice of money. That is within your power. Having done that, I do not know what more they could do to maintain the parity.

CURRENT REDEMPTION.

Mr. HILL. On page 6, also, Mr. Fairchild, in the plan of current redemption, there is a difference between the various propositions, two bills providing for redemption at the Treasury or subtreasuries and two by banks or clearing houses. Do you anticipate any difficulty whatever in the redemption of bank notes through the subtreasuries any more than now exists through the redemption bureau of the United States?

Mr. FAIRCHILD. I should think not.

Mr. HILL. Does the commission contemplate that the redemption funds of the banks should be deposited with the subtreasuries instead of being deposited in the redemption bureau of the Treasury Department?

Mr. FAIRCHILD. It would be deposited with the Treasury; then, wherever the redemption took place, it would be a matter of bookkeeping with the Treasury.

Mr. HILL. That is the point. Do I understand then that your proposition involves the deposit of the redemption fund in the redemption bureau at Washington?

Mr. FAIRCHILD. Yes; I think so.

Mr. HILL. And then the accompanying redemption of a bank note at any subtreasury?

Mr. FAIRCHILD. At any subtreasury.

Mr. HILL. Where are they going to get the funds to do it?

Mr. FAIRCHILD. The bank would have a credit on the books of the Government and it would keep the account. It would redeem the notes out of the funds at that subtreasury, whatever they might be, and whatever this amount was they would transmit it to Washington and charge it against the bank.

Mr. HILL. Here is a redemption provided at Washington, and the bank's funds are deposited there for that purpose, for the Government does not guarantee the redemption in this bill.

Mr. FAIRCHILD. No.

Mr. HILL. It simply guarantees to use the funds the banks deposit, and compel the banks to deposit those funds, and so carry out the redemption. Do I understand you to propose that the Government shall supplement that by likewise redeeming those identical bills at San Francisco or Pittsburg, and wherever the subtreasury is, without the deposit of any funds there by the Government?

Mr. FAIRCHILD. At whatever subtreasuries are designated by the Secretary and the Comptroller of the Currency.

Mr. HILL. Do you think that is a perfectly feasible thing?

Mr. FAIRCHILD. I think so.

Mr. HILL. Then the Government would necessarily, as a result, be required to keep in every subtreasury funds available for the redemption of all the bank bills of the United States?

Mr. FAIRCHILD. Yes, but we are to assume that this would be done in the ordinary business way. It would be possible to present an inordinate amount of bank bills at any one subtreasury, and the Government immediately takes over from the funds of these banks into its own fund the same amount. The Government having all the time ample funds for this purpose, on our theory, just as it has now, that it would be a matter of bookkeeping. The United States seeing that somewhere within the custody of the Government it had possession of sufficient money to take care of the bills presented, it would consult the circumstances so as to afford rapid facilities for redemption, as far as could be.

Mr. HILL. I confess I am entirely mistaken in that feature of your bill. I supposed the intention was that the subtreasury, for instance at San Francisco, should be designated as the place for redemption of the Coast bills.

Mr. FAIRCHILD. That would be within the discretion of the Secretary of the Treasury and the Comptroller of the Currency. We provide that they shall be redeemed at Washington in any case, and at any or all subtreasuries, as the Comptroller of the Currency and the Secretary of the Treasury may designate. If they find that there is a group of banks so situated that it would be convenient for them to redeem at San Francisco, they would say that the notes shall be redeemed at the subtreasury at San Francisco, or if it is advisable to redeem at two or three current points, then they will so designate. We thought it best to leave that to the discretion of the Secretary.

Mr. HILL. I supposed it meant that the Secretary should designate some subtreasury where the notes would be redeemed, and that the bank's funds should be deposited there?

Mr. FAIRCHILD. No; the main books were to be kept at the Treasury in Washington. A statement is given to the Secretary of the Treasury every day as to the funds of the United States. They are scattered all through the subtreasuries all over the country. They make up the funds of the United States; and the United States from time to time replenishes here or replenishes there, as the need may be; but there is always in all these subtreasuries a large amount of money.

Mr. HILL. Then you think it would be entirely feasible not only to make a certain redemption point at Washington, but that all the bank bills should be equally liable to redemption at any subtreasury?

Mr. FAIRCHILD. I think so.

Mr. HILL. I did not see how it could be done, but I accept your superior experience and wisdom.

Mr. FAIRCHILD. I think there will be no difficulty about that.

RESERVES AGAINST DEPOSITS.

Mr. HILL. Please turn to page 8 of this pamphlet. The provisions for reserves against deposits are alike in all four of these bills except as to the form in which they are held. Why do you make the limit of 25 per cent of coin?

Mr. FAIRCHILD. That was the result of a sentiment in the commission that it was a good thing to have coin scattered over the country, and this was the way of doing it. That to have it distributed among the banks all over the country would be a useful condition of things. There is nothing practical in it, except that where we hear so much about coin, it would be well to say, there is so much in this town, and so much visible there, and so on.

Mr. HILL. And silver certificates?

Mr. FAIRCHILD. I did not attach much importance to that myself.

Mr. HILL. Silver certificates are not legal tender. They would not be in the payments of deposits?

Mr. FAIRCHILD. No, sir.

Mr. HILL. Did the commission consider the case of requiring the lawful reserves to be held in some form of legal-tender money?

Mr. FAIRCHILD. It will all be held in legal-tender money.

Mr. HILL. I notice some difference in one of the other bills, that 60 per cent may be in legal tender and 40 per cent not in any form of legal tender.

Mr. FAIRCHILD. In our bill it is provided that it shall be held in lawful money, which is legal tender.

Mr. HILL. Silver certificates would not be a legal tender.

Mr. FOWLER. A silver certificate is not legal tender.

Mr. NEWLANDS. A certificate is lawful money?

Mr. HILL. Yes.

Mr. FAIRCHILD. A bank bill is lawful money. I have always supposed that what was meant by lawful money was a legal tender. If I am mistaken, then it is a mistake in the bill.

Mr. HILL. Silver certificates are declared in the bill to be lawful money, but I do not think that they are legal tender. It would not be legal tender in the payment of deposits.

Mr. NEWLANDS. Could it be held as a reserve?

Mr. HILL. The law provides that it may be held as a reserve in national banks.

FINAL REDEMPTION.

Mr. FAIRCHILD. I should not think there would be any objection to having them held as a reserve of national banks.

Mr. HILL. On page 10 you will see that two of these bills have the final redemption by the Government, and in two of the bills the redemption is not guaranteed by the Government. Please give us your views in regard to that. In your bill the final redemption is not guaranteed by the Government. It is a direct change from the existing conditions.

Mr. FAIRCHILD. Yes; our belief was that the Government should be separated from the bank money as far as was possible within limits of both safety and convenience, and therefore we provided the guaranty fund; we provided the redemption fund; we provided the mutual bind-

ing together of the banks for safety. We felt that for safety the funds should be in the custody of the Government, and therefore it would be necessary for the Government to keep accounts against them. So it would be more useful for the Government to have the custody of the funds itself and use them in redemption through its Treasury branches.

Mr. HILL. Within the past half dozen years the 5 per cent redemption fund deposited at the Treasury has failed to be sufficient to meet the redemption of national bank notes, so at times the banks have owed the Government as high as \$5,000,000 on that redemption fund, taking the banks as a whole. Now, the Government is responsible for the redemption, whether the fund is maintained or not. Under your bill you take away that Government responsibility?

Mr. FAIRCHILD. Yes.

Mr. HILL. I want to ask if it was the idea of the commission that in the event a shortage of the funds occurs, or an accumulation of redemptions before the funds are presented, it would be the purpose of the bill that the Government should go on and redeem those notes regardless of the fact as to whether they were ultimately responsible or not, and recoup themselves with the remedy they have of the assessment?

Mr. FAIRCHILD. No; we thought there would be such ample protection. As it is now, the Treasury goes on redeeming, and it makes up this account once a fortnight, as I understand it, and if they find that they have overredeemed for a bank they notify that bank to make up its fund. We assume that as that is a matter of bookkeeping it would perhaps be done in very much the same way, it being impossible for them every night to tell just how the account stood. They would take groups of banks and dispose of them, see how their accounts stood, and about once a fortnight the whole accounts would go through the Redemption Bureau, and the banks would be notified to make up any deficiency.

Mr. HILL. Then your idea would be that redemption should go on as now?

Mr. FAIRCHILD. Yes.

Mr. HILL. So the change in the law is really a change in theory and not in fact?

Mr. FAIRCHILD. It would not be a change in fact that any note holder would know of; but our idea was not that the Government was to be responsible should the resources that we have provided here fail to redeem any bank notes, but that the bank could stop at any time it found it was running beyond what was prudent. In practice we thought we could do just as they do now, so long as they felt that they were perfectly safe. That would be for the manifest convenience of everybody.

Mr. JOHNSON. The Government goes on redeeming now because it is sure it can not lose anything?

Mr. FAIRCHILD. We assume that under this plan it could not lose anything; that it would be just as secure under this law as under the present law.

Mr. MCCLARY. Is it true that the Government sometimes finds itself in a condition where the aggregate of the reserve has been drawn out?

Mr. FAIRCHILD. No; I do not think so.

Mr. HILL. What is that?

Mr. FAIRCHILD. Mr. McCleary has asked if the Government has found itself at times where the redemption fund of all the banks has been impaired.

Mr. HILL. Up to a debt of four or five million dollars, I think, several times. That has been so for six or seven months, I think.

Mr. FOWLER. It has gone to two or three or four million dollars quite often.

Mr. FAIRCHILD. That is a pure matter of administration in the Treasury Department. If that happens, it is the fault—if it is a fault—of those who are keeping the accounts in the Treasury Department not keeping them sharply enough.

Mr. FOWLER. It need not happen?

Mr. FAIRCHILD. It need not happen.

Mr. HILL. As I understand, the Currency Commission asked for forms of all bills that have been pending before the committee to be sent to them when making up this bill, and I assume that in making up this bill they examined the pending measures. Will you please inform the Committee on Banking and Currency why you made this final redemption guaranty on the part of the Government so much stronger in your bill than it is in any of these other measures? As to the first bill, on page 10 of this pamphlet, it says: "Final redemption is by the Government recouped by current redemption fund of 5 per cent plus proceeds of one-fifth to one-half of 1 per cent on credit notes, plus first liens on assets, and stockholders' liabilities." In the second bill the Government redeems, "as agent only, from proceeds of sale of bonds deposited together with 5 per cent fund accumulated by one-fourth per cent tax on bond notes, and graduated tax on credit notes, plus the first lien on assets and stockholders' liability." That is precisely as the Monetary Commission bill does. In the Gage bill, it is by the Government, as now.

Mr. FOWLER. You must distinguish between ultimate redemption and current redemption.

Mr. HILL. I understand that. They added a 5 per cent guaranty fund over and above the 5 per cent fund. In the Monetary Commission bill the final redemption is "by Government as agent only, from proceeds of sale of bonds deposited, together with 5 per cent redemption fund, and 5 per cent guaranty fund, first lien on assets, stockholders' liability, and assessment on banks having circulation, all of this supplemented by accumulated taxes and guaranty fund. This guaranty fund is in addition to redemption fund, and must be maintained by the banks in gold, and is not counted as part of reserve against deposits, and the interest upon it does not accrue to the banks, but is supported by the fund itself." You provide a 5 per cent redemption fund, and in addition to that the stockholders' liability and assessment on all the banks. Do you not think the other provisions were sufficient?

Mr. FAIRCHILD. I think we thought they were sufficient. As you will see by our argument, we thought that the 5 per cent guaranty fund was far more than sufficient. The 5 per cent redemption fund, of course, is for the current redemption. Then the taxes on the circulation between the additional 60 per cent and 100 per cent, and the interest on any investment of this guaranty fund, were provided for greater assurance to the minds of the people, this being a new thing, in the minds of banks, that when the last bank went out on the day of judgment there would be something left, which would be the accumulation of these taxes and interest. That would assure banks, which would consider it carefully, that they practically ran no risks in coming into the system.

Mr. HILL. You would think that this is perfectly safe for the Gov-

ernment, so that the banks would not be called upon to respond to an assessment?

Mr. FAIRCHILD. Under this plan the banks would necessarily be called upon for an assessment to keep up the 5 per cent fund, because we do not give them, so far as that is concerned, the benefit of the interest and the taxes.

Mr. HILL. That is a still further accumulation?

Mr. FAIRCHILD. Yes; that is a still further accumulation. Therefore, whatever the deposits for individual banks amounted to through the series of years, it would be something that would come upon the banks in this system. Had this plan been in operation from the beginning of the national banking system up to the present time, and had all the banks of the country issued 80 per cent—we based our calculation on that—of their capital in notes, and kept them constantly issued, the assessments since 1863 upon all the banks would have been about one-fortieth of 1 per cent per annum, a little less than 1 per cent since the commencement of the national banking system. We figured this out, not as the statements in the Comptroller's report give you the result on the actual circulation in existence, but upon a circulation supposing our plan had been in operation and all the banks had taken advantage of it up to 80 per cent from the beginning of the system, to see what the outcome would then have been. We had to make entirely new tables and go through the whole calculation entirely anew, and that was the result. Only one-fortieth of 1 per cent per annum! And we felt that was so small that if banks were assured that that was all it was likely to be in the future, it would be adopted by them.

Mr. HILL. Then with the guaranty fund, under the accumulations of interest and the taxes, judging by any past experience, you do not believe that it would ever be necessary to lay an assessment on the banks?

Mr. FAIRCHILD. Except this very small amount. That would have to come. They would have had to pay upon the 80 per cent of circulation—a little less than 1 per cent; not 1 per cent on their capital, but 1 per cent on 80 per cent of their capital.

Mr. HILL. Would not that have been more than overcome by the difference in the way of taxes?

Mr. FAIRCHILD. Of course, they are taxed now 1 per cent per annum on their circulation.

USE PROVIDED FOR SILVER.

Mr. NEWLANDS. Mr. Fairchild, I observe one recommendation in your report with reference to the silver bullion not held against outstanding certificates, and a recommendation that some provision should be made for the sale of this surplus silver, etc. Did your commission regard the disparity between the money value of silver in the silver dollar and the value of the gold in the gold dollar as a serious question?

Mr. FAIRCHILD. We did not. With this amount of silver dollars we thought we would go along perfectly well under our plan.

Mr. NEWLANDS. You thought the country, by an exchange of gold for silver dollars—

Mr. FAIRCHILD. And by the use of silver.

Mr. NEWLANDS. And by their use together, could sustain it? You relied mostly upon the use of the silver money among the people themselves?

Mr. FAIRCHILD. Upon the use supplemented by the assurance that they could not incur a loss on them. There being absolute confidence

in them, we believed the use would be to the uttermost; that is, that the use would be assured by the convenience that they gave. On the other hand, it would not be impaired by any fear of their depreciation.

Mr. NEWLANDS. And you propose to stimulate that use by making the silver certificates of small denominations, so they would be used for cash transactions among the people?

Mr. FAIRCHILD. Yes; and taking away all other paper money under \$10 in denomination.

TEMPTATION TO FRAUD.

Mr. NEWLANDS. Do you not regard that disparity between the market value of silver and the silver dollar and the value of the gold in the gold dollar as an encouragement for counterfeiting?

Mr. FAIRCHILD. Yes; that is a serious objection to it.

Mr. NEWLANDS. Would it be difficult to counterfeit the silver dollar?

Mr. FAIRCHILD. I am not a counterfeiter, and I can not tell.

Mr. NEWLANDS. But you have been Secretary of the Treasury. Do you know whether it has been difficult?

Mr. FAIRCHILD. I do not know. I have no information on that subject to a degree enabling me to give an expert opinion on it.

Mr. NEWLANDS. You regard it as a temptation, at all events?

Mr. FAIRCHILD. Certainly.

Mr. NEWLANDS. Would you regard it as a desirable thing if the silver in the silver dollar were worth as much as the gold in the gold dollar, in the markets, apart from coinage value?

Mr. FAIRCHILD. I should think it desirable, if it very much more nearly approximated it than it does now, as guarding against this temptation to counterfeit; but, on the other hand, there is the question of the expense of coining it all over again.

Mr. NEWLANDS. Did your commission look into the question of making the value of the metal in the silver dollar—

Mr. FAIRCHILD. Yes; we considered that, and it was this question of expense that deterred us.

Mr. NEWLANDS. What question of expense?

Mr. FAIRCHILD. Of making these coins all over again and putting the additional silver in them.

Mr. NEWLANDS. That would result in a diminution of the silver coins outstanding, would it not?

Mr. FAIRCHILD. No; I was not thinking of reducing the number, of taking these and melting them together, but of keeping the same volume of them by count, taking in all that coinage and substituting in its place \$400,000,000, or whatever there might be, with the additional amount of silver in them.

Mr. NEWLANDS. Where did you propose to get the additional amount of silver?

Mr. FAIRCHILD. It would be necessary to buy more silver to do that.

Mr. NEWLANDS. Did you consider at all the ratio at which you proposed to do that?

Mr. FAIRCHILD. No; we did not. It was a mere general question as to whether it was best to do that.

Mr. NEWLANDS. I presume you will agree with me that the value of the metal in the silver dollar could be made equal to the value of the metal in the gold dollar in two ways, one by increasing the consumption of silver in the production of silver coin, and the other by adopting a different ratio and putting additional silver into those coins. It could be done in either way, could it not?

Mr. FAIRCHILD. I do not think that would be the result if you made the additional coins.

Mr. NEWLANDS. You do not think that the increased use of silver in that way would raise the market value of silver in the world?

Mr. FAIRCHILD. No.

Mr. NEWLANDS. Did you look into the question of the stock of silver in the world?

Mr. FAIRCHILD. I do not think the commission did. I myself have frequently considered the stock of silver in the world.

Mr. NEWLANDS. Did the commission look into the question as to what countries produced the silver abroad, and as to whether any limitation on production could be made by these countries in such a way as to make the use commensurate with the production?

Mr. FAIRCHILD. No, sir.

Mr. NEWLANDS. The only fact, then, that you took into consideration was the maintaining the parity by exchangeability with the gold coin, and by the use of these coins?

Mr. FAIRCHILD. We considered three forces. One was the limitation of the number, next the use to which they must necessarily be put in performing the function of money below \$10, and lastly the promise of the Government to take them up in gold if presented.

Mr. NEWLANDS. Then you regard limitation of the quantity of money as an element in fixing value, do you not?

Mr. FAIRCHILD. I think that in order to have the promise of the United States believed in there must be a limitation to the degree upon which it will be called upon to redeem.

Mr. NEWLANDS. When you refer to limitation, then, you refer to a limitation of the obligation of the Government in the way of redemption.

Mr. FAIRCHILD. Yes.

Mr. NEWLANDS. Not a limitation of the number of units of money themselves?

Mr. FAIRCHILD. I do not think that the limitation of the number of dollars would under all circumstances affect the value of the single dollar appreciably.

QUANTITATIVE THEORY OF MONEY.

Mr. NEWLANDS. Would the expansion of the dollars affect the value of the single dollar appreciably, all other things being equal?

Mr. FAIRCHILD. Well, now we come to that philosophical question you asked Judge Taylor, of the quantitative theory of money. I do not believe that the value of money is determined by its quantity, within any comprehensible limits.

Mr. NEWLANDS. I understand that is your general view, but I ask you whether the expansion of the number of units of money would, in your opinion, have any effect on the value of the unit of money?

Mr. FAIRCHILD. Suppose that you made every ounce of iron worth a dollar.

Mr. NEWLANDS. You think the value of the purchasing power of the unit of money can be diminished, do you?

Mr. FAIRCHILD. I do. But I do not believe that the expansion or contraction of money generally recognized by the business world as good and satisfactory affects its value to a degree that you can measure.

Mr. NEWLANDS. Assuming that the only money of the world to day was gold, with the existing stock of gold throughout the world, and assuming that some metal could be found of which the existing stock

was only one-half as great as that of gold, do you think that you could safely change from the gold standard to the standard of that metal without affecting the value of each unit of that metal?

Mr. FAIRCHILD. I do not think that this Government or any combination of governments could come in and say, "We will do this," without making a great disturbance. I think the way it would come about, as I have already explained, would be out of the habits of the people, which might drive one out, and then government would come in and adopt it. I think the only thing that government ever has done or can do is to adopt what they ascertain to be facts of that sort. The exact laws which govern them are, in the nature of things, difficult to define, because it is largely a matter of habit and sentiment and feeling among all communities that are using these things.

Mr. NEWLANDS. But your remarks apply only to the method of the change.

Mr. FAIRCHILD. I think that what Government does is not the thing that fixes the value; I think it is what is done beyond and outside of Government that determines those questions.

Mr. NEWLANDS. Then I will put the question in that way.

Mr. FAIRCHILD. I can not account for what has taken place in the history of these things on any other theory.

Mr. NEWLANDS. I will put the question in that way. Assuming that by the general consensus of opinion of the business world a metal is selected of which the accumulated stock is only one-half that of the existing gold in the world, and a change were made, do you think that each unit of that new money would have the same value as the unit of gold?

Mr. FAIRCHILD. I think if that took place it would be because the people found it an exact substitute.

Mr. NEWLANDS. I understood you to say that no such change could possibly occur through the action of the business world, if the effect was to increase the power or the value of each unit of the new money, is that it?

Mr. FAIRCHILD. Oh, there might be, in the course of many, many years, such an effect, but in my judgment this thing comes about, and has come about, not through agreements of people, or anything of that sort, but by each man dealing with his neighbor, and out of that has come the general concurrence which has produced different results.

BANK TAXES.

Mr. HILL. Will you kindly turn to page 12, of the "Comparative Statement," dealing with the subject of taxes, and explain why you changed the tax from a tax on circulation to a tax against the aggregate amount of capital, surplus, and undivided profits?

Mr. FAIRCHILD. Because we felt that a bank note was simply one of the forms in which the customers of a bank wanted to use the accommodation of the bank; that if you put the tax on the note, you put the tax practically on the people who want to use that form of the bank's credit. You did not put it on those people who wanted to use the bank's credit in the form of credit carried to them on the books of the bank, against which they could check. Therefore, we felt that we distributed the burden more equally among those who used the bank for their convenience, that the capital and surplus represented the property the banks had, and it was not a tax on a portion of the tools their customers wished to use.

Mr. HILL. That same reasoning would tend to remove the graduated tax which three of these bills put on the issue of currency.

Mr. FAIRCHILD. Our tax is put there simply as a spring which would hold it back from the uttermost issue, in order that in the times beyond the ordinary times, and beyond the seasonal times, when there came a year, as it does come every few years, when they wanted money over and beyond that, the bank would have an inducement to remain within some limit so it would have a play which it could use in those unusual times.

Mr. HILL. I think your answer tends to convey the idea, which has been suggested by one or two others who have appeared before this committee, that this was a tax intended to repress the issue of circulation. As a matter of fact, is not that needed to call in the bills after the emergency had passed rather than to repress it during the emergency?

Mr. FAIRCHILD. Yes; it is intended to keep it in so it will not go out except in an emergency. That would be the same in effect, but of course the converse would be true, that it would call it in as soon as the emergency had passed.

Mr. HILL. I want to call your attention to the fact that three of these bills have this graduated tax in different forms and different ways, but that one of these bills not only has no graduated tax on the full amount of its circulation up to the amount of its capital, but it provides that accumulated surplus and undivided profits shall also be counted as capital in the issuance of circulation. Do you think it would be a safe proposition to allow the banks to issue circulation without any graduated tax or any restraint up to the full amount of capital, surplus, and undivided profits? Would it be fair to the depositors?

Mr. FAIRCHILD. Well, I think it would be better that the tax should be measured by the capital, because it is always within the power of the banks that feel the need of it to convert their surplus into capital. They can convert their surplus into capital if they like, and then we get the stockholders' liability in addition against it. As to the degree of safety, I am not prepared to say. We felt that this provision would accomplish the purpose and that it was sufficient, and we did not care to go beyond what was sufficient.

LIMITATION OF BANK CAPITAL.

Mr. HILL. In the matter of the minimum limitation of bank capital you will see that Mr. Gage's bill and the commission's bill fix it at \$25,000, and the other two bills at \$20,000. I suppose the simple fact that your bill is drawn that way would show that the commission did not think it was prudent to allow a capital of less than \$25,000?

Mr. FAIRCHILD. We thought that was low enough.

Mr. HILL. Turn to page 16 of the statement, if you please. Two of these bills have peculiar features in this respect. One of them provides that a board of seven experts shall advise the Comptroller in administering bank laws. The second one provides for three ministers of finance to constitute an independent department of finance. Have you read those provisions relative to the powers of those two boards?

Mr. FAIRCHILD. Yes.

Mr. HILL. Do you think it would be a wise provision of law in a republic, with frequent elections, to provide that the entire banking capital of the country shall be administered under the control of any

three or four men, with the power to call in and order out circulation, as these bills distinctly provide?

Mr. FAIRCHILD. I should think the circulation——

Mr. HILL. Should be fixed by law, should it not?

Mr. FAIRCHILD. The maximum should be fixed by law and the rest of it fixed by——

Mr. HILL. Fixed by business?

Mr. FAIRCHILD. Yes.

Mr. HILL. But, in your judgment, would it be wise to have that matter controlled by an independent body of men, who would administer on the law and decide as to how circulation should be called in and when and how it should be issued?

Mr. FAIRCHILD. I do not think so.

BRANCH BANKS.

Mr. HILL. In the bill of the monetary commission branch banks are authorized under the rules and regulations prescribed by the Secretary and the Comptroller. It is entirely within the power of the Secretary and Comptroller to authorize the issue of currency?

Mr. FAIRCHILD. No; we did not contemplate that.

Mr. HILL (reading). "Branch banks authorized under such rules and regulations as may be prescribed by the Secretary of the Treasury and the Comptroller."

Mr. FAIRCHILD. Not that they should have an additional issue. And I might say, about that branch bank provision, we did not develop that as much as probably we should have done. We probably did not go into that quite enough. I think, and I think the commission thinks, that if branch banks were authorized it would be very well to make more provisions than are included in our bill. For instance, I have in my mind that you should require every branch to have an amount of capital equal to that which would be required to establish a bank in the place in which they were going to establish it. I would provide that. But the commission left it in this way, and when I drew this law, I followed what they said about it. If it were left entirely to me, I would provide some such provision as that.

CLEARING-HOUSE ASSOCIATIONS.

Mr. HILL. Do you think it would be a wise provision of law that clearing-house associations should be allowed to have note-issue functions, the same as organized banks with capital?

Mr. FAIRCHILD. I have not thought of that until now. That is a novelty.

Mr. HILL. One of these bills provides not only for local clearing houses, but for a combination of banks in a district to have local clearing houses with the power of note issue. Then the local clearing houses can unite in a national clearing house, and that also has the power of note issue.

Mr. FAIRCHILD. That was novel to me.

Mr. HILL. Do you not think it would be getting rather top-heavy?

Mr. FAIRCHILD. I may say that the course the commission pursued was to adhere as nearly as possible to existing conditions, only enlarging upon them. They did not propose anything particularly novel or different from what now exists, so that the system would be quite clearly understood by those going into it.

LIABILITY OF STOCKHOLDERS.

Mr. SPALDING. You know the provision for the liability of the stockholder is a little different in this bill from the provisions in the others?

Mr. HILL. I meant to have asked about that.

Mr. SPALDING. Under the present law it is ratable one with the other, and under this it is a total liability.

Mr. FAIRCHILD. In the commission we have several gentlemen who are stockholders in banks, and we asked them what their liability was. They said their liability was up to the amount of their stock, and they were very much surprised that the liability was not so great as that. We thought that was what everyone contemplated when he took his stock. To-day, suppose a bank fails and has \$100,000 of capital. Here is a man who has \$50,000 of that capital. Suppose they are short \$25,000. They assess \$25,000 on \$100,000. Suppose that their \$50,000 stockholders are solvent. This man does not have to pay \$50,000, but pays in proportion.

Mr. JOHNSON. Your bill makes him liable so long as the excess can not equal double the value of his stock?

Mr. FAIRCHILD. It can just equal it. But if the other stockholders fail to make good theirs, it can come back on the solvent stockholders until their double liability is exhausted. Another consideration. Very often they will say to people: "Mr. Vanderbilt or Mr. Astor is a stockholder in this bank, and it must be good." That is entirely misleading, and we felt it would make stockholders and banks more careful who their partners were.

Mr. HILL. You strike out the words "equal and ratable?"

Mr. FAIRCHILD. We thought that was not unfair, but that it would make more careful management on the part of banks—that is, the larger stockholders would look to see that the other banks were wisely managed, and that it would be quite an addition, not only a big safeguard, but a small safeguard, which would induce a more careful study of bank methods.

Mr. WALKER. Do I understand that your double liability differs from the double liability under the present law?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. One man does not get the benefit of the insolvency of the other man?

Mr. WALKER. What is the difference?

Mr. FAIRCHILD. To-day a stockholder is liable ratably and equably with the other stockholders up to the total amount of the stock. Under ours you have your recourse against a stockholder until he has paid his total liability, if he is good and all other stockholders in the bank are bankrupt. He does not escape his assessment up to his total amount.

Mr. CAPRON. Suppose a case: A bank has a capital of \$100,000, and say that I had \$40,000 of the stock and the bank became insolvent. Would process lie against me, and I look to those other of the stockholders who were not—

Mr. FAIRCHILD. It is the duty of the Government officers to exhaust their remedies against their stockholders. When it fails against some of them you would continue to be liable until your \$40,000 was exhausted.

Mr. CAPRON. I thought process would lie against anyone, as I read the bill.

Mr. FAIRCHILD. That is not the intention.

Mr. HILL. Does it not read that way? I thought it read that way.

Mr. FAIRCHILD. That is not our intention. The intention is that he

shall proceed as now, and failing in that he shall get the deficiency through this method.

Mr. HILL. I looked that over and I wondered what would be my liability in such a case, and it seemed to me that process would lie against me personally if they chose to bring it, and I would have to look to the other stockholders to recoup myself.

Mr. FAIRCHILD. That is not our intention.

Mr. HILL. It reads so.

Mr. FAIRCHILD. We meant that even if a man did pay, and he should know some way that the Government did not know by which he could get his money out of his fellow-stockholders, he could have recourse to them himself afterwards.

Mr. SPALDING. This total liability that we speak of is the loss of stock he owns, and as much more?

Mr. FAIRCHILD. Yes, sir.

Mr. BROSIUS. The par value. A man may pay 100 on the stock, but does not double that.

Mr. HILL. He does in Mr. Walker's bill. His liability extends to accumulated profits as well as stock?

POWERS GIVEN BANKS.

Mr. SPALDING. You refer a great deal in the commission bill to sections of the national-bank law and the power of the bank given by the United States when the charter is granted, and that grant is very similar in your bill to what it is in the national-bank act.

Mr. FAIRCHILD. Just the same, I think.

Mr. SPALDING. That was my impression. In that, would they have the power to purchase cash paper? The decision of the courts is the other way.

Mr. FAIRCHILD. That was a surprise to me.

Mr. SPALDING. I had occasion to go into that. I supposed they would have that power; but if not, why would it not be a good idea to give them that power?

Mr. HILL. I should think it would.

Mr. FAIRCHILD. Perhaps it would.

Mr. FOWLER. The last question asked by Mr. Hill was about branch banks, and it is altogether probable that if such a statute were enacted there would be an evolution along that line, is it not?

Mr. FAIRCHILD. Well, I can not say whether there would be or not.

Mr. FOWLER. That involves the question whether the commerce of this country and the currency and finances of this country shall be controlled at a given time by possibly two politicians or men of experience. Do you think that it is wise to turn over to a man who has never had a business experience—possibly nothing more than that of a public man and lawyer—the power of the Secretary of the Treasury, and to another man, who may have had no business experience whatever, the power of the Comptroller in deciding questions of bank administration, where the deposits may amount to millions of dollars, and the establishing of a branch, involving the matter of the increased capital of the parent bank should put out when the branch was established? Do you think that kind of administration would be wise?

Mr. FAIRCHILD. Oh, I do not know. That is assuming so many things.

Mr. FOWLER. It has an absolute fact as a basis. I am referring to what actually happened.

Mr. JOHNSON. What bill have you in mind?

Mr. FOWLER. I have a fact in mind: Suppose a President is elected and we have 10,000 banks in this country and they cover \$10,000,000,000 of assets, approximately. Would it be wise, in your judgment, to turn over 10,000 banks and \$10,000,000,000 of assets to a Secretary of the Treasury and a Comptroller of the Currency, who, neither of them, had ever had any business experience as bankers, or ever made it a special study. Is that wise? Would that be wise?

Mr. FAIRCHILD. Oh, well, Mr. Fowler, that goes into our whole governmental practice.

Mr. FOWLER. Would that be wise, as a business proposition?

Mr. FAIRCHILD. Of course it is not wise to give anybody who does not know how to do a thing the transacting of it.

Mr. FOWLER. Of course not. Is it a wise and prudent thing to do to put in as Secretary of the Treasury and Comptroller of the Currency men who have never had any business experience in their lives to have charge of all this business of the country?

Mr. FAIRCHILD. It depends very much on the men they put in. I should not like to say anything about that. When I went into the Treasury Department I had never had any experience in banking or finance whatever.

Mr. FOWLER. But you had considerable business of your own to attend to?

Mr. FAIRCHILD. But never any experience in these directions at all. I may say that I do not think there is any sealed book about any of these things, and I would just as soon trust a man of good judgment and ability and character in administering the Treasury Department as I would a man who was simply versed in the technicalities of banking, and had had no experience but that.

[Thereupon, at 4 o'clock p. m., the committee adjourned until the following morning, January 20, at 10.30 o'clock a. m.]

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 20, 1898.

SEVENTH DAY.

The committee met at 10.30 o'clock a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Brosius, Johnson, Van Voorhis, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, and Maddox.

Mr. Charles S. Fairchild appeared before the committee for further examination.

**STATEMENT OF HON. CHARLES S. FAIRCHILD, OF NEW YORK, A
MEMBER OF THE MONETARY COMMISSION AND EX-SECRETARY
OF THE TREASURY—Continued.**

The CHAIRMAN. Mr. Brosius is entitled to the floor.

MAINTAINING THE PARITY.

Mr. BROSIUS. Mr. Fairchild, does your commission bill proceed upon the assumption that it is the duty of the Government to guard all currency issued by its authority against loss or depreciation in the hands of the people?

Mr. FAIRCHILD. No.

Mr. BROSIUS. It does not? Do you think that is the duty of the Government?

Mr. FAIRCHILD. I do not.

Mr. BROSIUS. Would it be sound policy for the Government to do so?

Mr. FAIRCHILD. I think not.

Mr. BROSIUS. Whose duty is it to keep the money sound?

Mr. FAIRCHILD. It is the duty of the people who issue it, whose debt it is.

Mr. BROSIUS. When the Government authorizes the issue of any kind of money by any other power, ought it not to require that power to keep that money sound?

Mr. FAIRCHILD. Yes, it should.

Mr. BROSIUS. Do you think it is the duty of a government which provides for several kinds of money to maintain it all at a parity?

Mr. FAIRCHILD. I think it is its duty to keep at a parity all the money which it issues itself. It is its duty, for the bank notes, to provide a system which will keep the bank notes at a parity, and then enforce whatever laws are involved in the system to that end. That is distinguished from the government itself assuming the duties—the providing of the system and enforcement of the laws thereunder, and not itself guaranteeing.

Mr. BROSIUS. Do you think all our money could be kept at a parity by simply receiving it for all dues to the Government without more?

Mr. FAIRCHILD. I do not.

Mr. BROSIUS. Do you think it would require money to be interchanged at all times in order to maintain the parity?

Mr. FAIRCHILD. Yes; to be interchanged at all times. I think that I ought to explain a little, because, although our silver is not interchangeable with gold by law, it is by practice, the Government always having large funds in its Treasury. Those funds in the Treasury have served the purpose, from time to time, of retaining the silver money which the community for the time being did not wish to use, and therefore the Government has always been in the position to do two things. First, they give the public creditor the choice of the kind of money that he would receive from the Government in the payments to him. Next, it has always been in a position to give the public debtor the choice of the kind of money that he would pay to the Government. The result of those two things has been that the Government for the time being has held the money that for any reason was not desired in the currents of business. That was notably the case in 1885 and for a few years after, when the country would not use the silver dollars to the full extent. The result was that some \$94,000,000 of them accumulated in the Treasury, and the Treasury having a large surplus at that time was thus enabled to hold in that reservoir, as it were, the silver that the country would not absorb in its business, and it held it there until the condition of things came whereunder the country was ready to absorb it. Had the Treasury not been able to do that at that time, we would have seen a discount upon the silver dollar.

Mr. BROSIUS. Was gold exchanged for silver from 1885 to 1889?

Mr. FAIRCHILD. No, sir.

Mr. BROSIUS. Well, then, how long has it been the policy and practice of the Government to exchange gold for silver on the demand of the holder?

Mr. FAIRCHILD. I do not think that it has been the practice.

Mr. BROSIUS. I thought you said it was the practice—that parity could only be maintained by interchange.

Mr. FAIRCHILD. Yes; by doing it either actually or practically; either by the physical interchange or the indirect interchange through the operations of the Government's receipts and payments, as I have tried to explain.

Mr. BROSIUS. Then it has not been the practice of the Government to make a direct exchange?

Mr. FAIRCHILD. I do not understand that it has.

Mr. BROSIUS. Do you think that the parity of all our money under all circumstances could be maintained without the direct interchange of gold for silver, in case the holder of the silver demands it, and does not your commission bill proceed upon the assumption that gold will be given for silver when demanded?

Mr. FAIRCHILD. We provide in our bill that it shall be so given.

Mr. BROSIUS. That is direct interchange, is it not?

Mr. FAIRCHILD. That will be direct interchange; yes, sir.

Mr. BROSIUS. Can the parity of silver and gold be maintained under all circumstances without that direct interchange?

Mr. FAIRCHILD. I should say not so surely, under all circumstances.

Mr. BROSIUS. And therefore you have provided for that in your bill?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. Mr. Secretary Carlisle said that the parity of our moneys was maintained by the receipt of it for all dues to the Government, and that it was not the practice of the Government to exchange gold either for silver or silver certificates, and it has never done so.

Mr. FAIRCHILD. I think that is very true, and I think that the way the parity has been maintained has not been alone by the receipts of the dues. I think he stopped short in that. It was also by not forcing the public creditor to take it if he did not want it. You must have the ability of the Government to do that, and that ability requires a reservoir of funds in the Treasury which can act in the way that I have described.

BANKING FACILITIES PROVIDED IN THE COMMISSION BILL.

Mr. BROSIUS. Is it the purpose of the commission's bill to furnish credit facilities to every portion of the country and a safe and elastic currency as well, so as to secure such a distribution of loanable capital as will tend to equalize rates of interest in all parts of the country?

Mr. FAIRCHILD. Yes, sir; that is the purpose.

Mr. BROSIUS. Do you think legislation is equal to that task?

Mr. FAIRCHILD. I do not think legislation is equal to that task, but I do think that legislation can, by interfering with natural processes, greatly impede it. It can not effect it, but it can prevent it as it does now, in my judgment, under present laws.

Mr. BROSIUS. Does not a successful banking system depend upon conditions over which law, in a general way, has no control?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. Is not the banking business like any other business in which service is rendered to the public, in this respect, that it can be carried on successfully only when there is enough of it required by the public to sustain the business?

Mr. FAIRCHILD. That is true.

Mr. BROSIUS. Then it follows that if there is not enough demand for bank accommodations to justify the investment of capital in the banking business, banks will be few?

Mr. FAIRCHILD. Yes, sir.

Mr. BROSIUS. In other words, where there is a dearth of capital in a community there is likely to be a dearth of money and banking facilities, and the interest will range higher.

Mr. FAIRCHILD. Yes; but I should say that you would have to assume also that there is a business. A region in which there is no capital might have no business.

Mr. BROSIUS. Then there would be no banks.

Mr. FAIRCHILD. No banks, but there would be no rate of interest.

Mr. BROSIUS. If there was no money loaned there would be no interest.

Mr. FAIRCHILD. No.

Mr. BROSIUS. I am not assuming such a condition of facts, and your answer fully covered the question. There must be some banking facilities, there must be some money loaned in order to have interest at all. Now, then, is it possible to provide a uniform system of banking that will meet equally well the needs of all sections of the Union or of sections of the Union which show a marked disparity in the conditions which underlie and precede successful banking?

Mr. FAIRCHILD. I think that it is possible to provide a banking system that will meet the needs of every part of the country, whatever they may be.

Mr. BROSIUS. Equally well?

Mr. FAIRCHILD. Equally well.

Mr. BROSIUS. Then I will follow that up with a question somewhat extended, but necessary. In your mind, Mr. Fairchild, please divide this country into two sections, with conditions indicated by the disparity of resources, as the figures that I am about to read will show.

In one section there is 36 per cent of the total population, in the other section 64 per cent. In the former section—I will say former section because the first figures named relate to a section in which disparity exists, and so you will understand it. In the former section we will say that the total expenditures for school purposes are 22 per cent and in the latter section 78 per cent. In the former section the personal property is 32 per cent of the total and in the latter section is 68 per cent of the total. The real property in the former section is 24 per cent of the total and in the latter section 76 per cent of the total. The value of farm lands in the former section is 29 per cent of the total and in the latter 71 per cent of the total. Of farm products the former has 40 per cent and the latter has 60 per cent. Of manufactured products the former section has 13 per cent and the latter 87 per cent of the total. The wages paid in manufactures in the former section are 12 per cent of the total and in the latter 88 per cent of the total. Of the savings-banks deposits the former has 2 per cent and the latter 98 per cent of the total. Of national banks the former has 25 per cent and the latter 75 per cent of the total. Of capital stock the former has 17 per cent and the latter 83 per cent of the total. Of bonds deposited for circulation the former has 11 and the latter 89 per cent of the total. Of the bank-note circulation the former section has 12 per cent and the latter 88 per cent of the total. Of individual deposits the former has 15 per cent and the latter 85 per cent of the total. Of loans and discounts the former has 9 per cent and the latter 91 per cent of the total. Of stocks and securities held by the banks the former has 13 per cent and the latter 87 per cent of the total.

Will your bill equalize banking facilities and loanable funds and interest rates in those two sections of the country?

Mr. FAIRCHILD. It will not equalize them, but it will tend to equalize them.

Mr. BROSIUS. It will tend to equalize them. In other words, one banking system may be better than another, and the better the banking system the more it will tend to the equalization to which you refer?

Mr. FAIRCHILD. Yes, sir.

Mr. WALKER. What do you mean by better?

Mr. BROSIUS. There are good, better, and best banking systems. There are some banking systems better than others, and they are good in proportion as they accomplish the purpose suggested—namely, as they tend to the equalization of the facilities we have mentioned. Is not that your thought?

Mr. FAIRCHILD. That is correct.

Mr. MITCHELL. Mr. Brosius, will you be kind enough to ask Mr. Fairchild this question: Whether he can devise any better plan of tending to equalize them?

Mr. BROSIUS. I suppose that naturally they put forward in their bill the best system they could propose.

COSTLESS CURRENCY.

Can anything short of a costless currency meet the needs of the section of our Union which suffers the disparity of resources of all kind which has been described in the former question?

Mr. FAIRCHILD. There is no such thing as a costless currency, and there can not be.

Mr. BROSIUS. Practically costless?

The CHAIRMAN. What do you mean by costless?

Mr. BROSIUS. A currency that costs nothing to get.

Mr. COX. If it does not cost anything it is not worth anything.

Mr. BROSIUS. What does currency cost if it is issued against the assets of a bank?

Mr. FAIRCHILD. It costs the man the interest that he pays for it.

Mr. BROSIUS. It does not cost the bank anything. I am speaking of the banks; I am not speaking of the patrons of the banks. I am putting it in apposition to a bond-secured currency.

Mr. FAIRCHILD. Yes. A bank currency costs a bank its capital; all the things that go to secure it, all the expenses that are involved in creating it, in printing it, and all of the means that are taken to provide for a certain redemption. All that is a source of expense to the issuing banks. And then the difference between that and the wages, the hire it gets for its use, is the profit it makes.

Mr. BROSIUS. Mr. Fairchild, in comparison with a secured currency, a currency issued by a bank against its assets is practically costless, is it not?

Mr. FAIRCHILD. Not at all.

Mr. BROSIUS. Then financiers and writers who use that word "costless" currency to express currency issued without involving the capital and without costing anything excepting incidental expenses which, of course, are always a liability against even that kind of an issue, have misused the word?

Mr. FAIRCHILD. I think so.

Mr. BROSIUS. Well, in the sense that it is a currency issued against assets merely and not against capital, that currency is comparatively inexpensive, as compared with currency issued against capital or against security?

Mr. FAIRCHILD. All currency under our present system is of course issued against the assets of the bank. The difference is merely that a

selected portion of those assets are put with a trustee who holds them as a specific trust against the notes. To my mind that is the distinction.

Mr. BROSIUS. That is all right, but that distinction is not important to my inquiry.

Mr. FAIRCHILD. Given the same amount of money and the same amount of capital, the difference is where that capital will be used. In the one case you buy bonds with the capital and place those bonds with a trustee against the notes. In the other case you buy the notes and obligations of the people who are in the neighborhood of the bank with capital and you issue the notes against those resources, those obligations, and also against the obligations which are obtained from the loaning of those notes themselves. The same investment of capital takes place in either event, but it is invested in a different way and handled in a different way. So it does not seem to me that the word "costless" describes the situation. It seems to me that there is cost in either event; neither is without cost.

Mr. BROSIUS. Take two cases, one in which a bank is permitted to use its capital only in circulation, either by lending its capital or by investing it in bonds and obtaining from the Government a currency secured on the bonds, limited to the amount of the capital stock, and a case in which a bank is permitted to invest its whole capital in any kind of securities that are remunerative and take out an equal amount of currency against its assets. Is not the latter kind much less expensive to that bank than the former?

Mr. FAIRCHILD. The same amount of money is taken in either case. The same amount of capital is invested in either case; but in one case it pays the bank better to issue notes than in the other, because it can get a larger return for so doing. I think that is the difference. The same amount of money is involved originally.

Mr. BROSIUS. But it has twice as much currency to invest in its business.

Mr. FAIRCHILD. The underlying notion in this bill, in Mr. Walker's bill, and in Mr. Fowler's bill, I take it, is to accomplish exactly that result—to enable the banks to use a larger amount of funds in the kind of business that a bank is organized to do.

Mr. BROSIUS. Then you agree with me that your currency issued against the assets of a bank is cheaper than currency issued against the capital of a bank?

Mr. FAIRCHILD. I would not like to use the word cheaper, because that gives a sort of prejudice to it. I do not think that is fair.

Mr. BROSIUS. I do not mean cheap in the sense of nasty; I mean cheap in the sense of inexpensive. I will try to make my meaning a little plainer. If you issue currency against your capital, every dollar of currency costs you \$1, does it not?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. If you issue currency against your assets, what does a dollar of your currency cost you?

Mr. FAIRCHILD. It costs me one dollar.

Mr. BROSIUS. How so? It does not cost you anything except the incidental expense of running your business, because you have your dollar of capital independent of the dollar against your assets. You can invest that, and you still have your dollar; but the dollar of your capital costs you one dollar every time. Every dollar of currency issued against the assets of the bank costs nothing more than getting out the notes.

Mr. FAIRCHILD. When I buy the notes of my neighbor I pay for

them, and if I issue notes against them, those notes have cost me what I paid. If I buy bonds of the Government instead of the notes of my neighbor, my notes have cost me what I paid for the Government bonds. In either case they have cost me what I have paid for the assets on which I issued them. In the one case the assets return me more than they do in the other case, but in either case they have cost me originally the same sum of money. I am speaking roughly in regard to the cost; of course, in practice it would be necessary to pay a premium for bonds.

Mr. BROSIUS. We are not counting that.

Mr. FAIRCHILD. No; we are not taking that into consideration. But I can say that in either case they cost as much in original outlay, because the distinction is that if you have invested your capital in one kind of security instead of another at the outset, and that security is the assets, it enables you to go on to the next step—

Mr. BROSIUS. Then, Mr. Fairchild, the idea of the twenty-five or more financiers who have been before this committee from time to time for the past six or eight years, who have testified in favor of issuing currency against the assets on the ground that they were less expensive, and therefore enabled the bank to hold them idle awaiting the call of some need, is fallacious, is it?

Mr. FAIRCHILD. I think it is fallacious in the way you put it.

Mr. BROSIUS. We will let it stand that way.

USE OF SILVER UNDER THE COMMISSION BILL.

I believe the commission bill regards the silver dollar as a demand obligation of the Government.

Mr. FAIRCHILD. It does.

Mr. BROSIUS. In the same sense as the greenback or paper obligations are demand obligations of the Government?

Mr. FAIRCHILD. Practically the same.

Mr. BROSIUS. Is there any difference in principle between issuing paper obligations, which cost a trifle, and silver dollars at a greater cost, both being demand obligations redeemable in gold?

Mr. FAIRCHILD. No; I can not say that there is any difference in principle.

Mr. BROSIUS. That being so, is it not a corollary that there would be economy upon the assumption that there were too many demand obligations out to sell the silver and to use the paper, a less expensive obligation, for the purpose of money instead of the silver?

Mr. FAIRCHILD. I do not think there would be any economy in it. I think that if you could do it there would be; but when you began to take up your silver and issue paper demand obligations of the Government against it, whatever the difference in principle might be, the effect upon the public mind would be such that your paper obligations would cause you a great deal of trouble.

Mr. BROSIUS. You think there would be depreciation?

Mr. FAIRCHILD. I think there would be a great demand for their redemption on the part of the Government, and that would depend on the activity of the Government in retaining them. I think the Government would have to sell a large number of bonds in order to do it. I think that would be the psychological effect of it.

Mr. BROSIUS. If that silver was sold for gold and gold placed in the reserve, would not that allay the trouble?

Mr. FAIRCHILD. That would help, but as soon as you attempted to sell the \$500,000,000 that was in our silver dollars I think you would

have such a depreciation of the silver market that you would find it a very serious and important item.

Mr. BROSIUS. But does not your bill provide for the sale of silver bullion?

Mr. FAIRCHILD. We give the Secretary of the Treasury the authority to sell that silver bullion at his discretion and use that gold as a part of his reserve. We do that because it is a comparatively small amount, and we assume that he is only going to do it in small quantities, when the opportunity should offer, and that it is lying there performing no function whatever that is particularly valuable at the present time. Therefore, we thought it wise to give him the discretion to dispose of that silver bullion, expecting that he would not use that discretion except prudently and when a favorable opportunity presented itself.

Mr. BROSIUS. Why not, then, give him the discretion to dispose of, we will say, \$200,000,000 of silver—not the whole \$500,000,000, but \$200,000,000, to the same amount that is proposed by some to dispose of the greenbacks. You say \$200,000,000. Do you think that that discretion, even if exercised and the sale effected and the proceeds turned into the gold reserve, would disturb the public mind and cause the paper obligations to be presented for redemption?

Mr. FAIRCHILD. If you were going to pay for that with paper obligations I think it would.

Mr. BROSIUS. No; sell the silver for gold.

Mr. FAIRCHILD. Sell the silver for gold? Oh, no, I do not think that would disturb the public minds here; but we calculated that it was not necessary, under the figures that I have given you.

Mr. BROSIUS. Would we not in that case make just \$100,000,000 in gold? That is, as over and against the taking up of \$200,000,000 of greenbacks, which we will say cost practically nothing, and taking up \$200,000,000 of silver for which we could get \$100,000,000 in gold and yet have the same amount of money. Then we could have the same dollars if we chose to and have the same kind of money—that is, demand obligations against the Government—and save \$100,000,000. Would not that be economy?

Mr. FAIRCHILD. Probably it would.

Mr. COX. Please explain that a little.

Mr. BROSIUS. I will try to make it as plain as I can. The proposal of some is to take up \$200,000,000 in the greenbacks, upon the assumption that our difficulties have arisen from the fact that we have too many demand obligations out. The demand obligations embrace not only the greenbacks, but the silver coin and the silver certificates, and by reducing that amount \$200,000,000 we place ourselves upon a ground of safety. The \$200,000,000 of greenbacks practically cost us nothing, I mean.

Mr. FAIRCHILD. I understand that.

Mr. BROSIUS. Of course we give full value for them, but we can not sell them for anything; but it is admitted that the silver dollar is equally a demand obligation against the Government and liable to be redeemed in gold. Now, we want to reduce the aggregate of our demand liabilities. Shall we reduce them by disposing of \$200,000,000 of paper demand obligations or \$200,000,000 of silver demand obligations, they being treated exactly alike? If we dispose of \$200,000,000 of paper demand obligations, we dispose of them for nothing—we get nothing for them; but if we dispose of \$200,000,000 of silver demand obligations, we get \$100,000,000 in gold for them.

Mr. COX. I catch your point now.

Mr. BROSIUS. And we put that in the Treasury to reinforce our reserve.

Mr. FAIRCHILD. That goes on the idea that it is better to take up silver-demand notes than it is the greenbacks.

Mr. BROSIUS. Instead of the paper notes, because we can sell the silver notes and we can not sell the paper notes.

Mr. JOHNSON. And when you take up the silver you take up that which is worth 50 per cent of its face, while the greenback is intrinsically worth nothing of its face.

Mr. BROSIUS. But this silver is of no use. It costs us as much as it does to redeem a greenback note.

Mr. JOHNSON. But you have 50 per cent of value in that silver.

Mr. BROSIUS. That silver is of no use in the matter of redemption.

BOND-SECURED CURRENCY.

Mr. BROSIUS. Mr. Fairchild, do bond-secured notes diminish the loanable funds of the banks?

Mr. FAIRCHILD. They do.

Mr. BROSIUS. Is it not a fact that all the banks invest a large per cent of their capital in permanent investments?

Mr. FAIRCHILD. I think not.

Mr. BROSIUS. You think not?

Mr. FAIRCHILD. I think not.

Mr. BROSIUS. Do you not know that one-third of the total capital of the national banks in the United States is invested in permanent securities?

Mr. FAIRCHILD. That may be. I was thinking of all their resources, their deposits and all.

Mr. BROSIUS. I was speaking of their capital.

Mr. FAIRCHILD. Yes; that is right.

Mr. BROSIUS. Do you not know it is impossible for national banks to use their capital in loans and discounts and that they have to invest it in permanent securities so as to draw interest and earn money on it.

Mr. FAIRCHILD. They do whichever they think is most profitable at the time.

Mr. BROSIUS. Yes. By way of preliminary to the question, let me state that on May 14, 1897, the national banks had invested in bonds to secure circulation \$229,500,000, to secure deposits \$16,500,000, on hand simply as investments in bonds \$50,858,000, and invested in stocks and securities \$203,422,977; making a total permanent investment in bonds and stocks of all kinds of \$465,264,377, with a total capital stock paid in of \$637,000,000; so more than two-thirds of the capital stock of the banks of the United States was invested in permanent securities, on which they were drawing interest. That being so, if the banks did not invest in the Government bonds, would they not invest in some other kinds of bonds in order to secure the returns which they must have for their capital in order to continue their business?

And in view of the fact that, exclusive of Government bonds, they have an annual investment, a permanent investment, of over \$200,000,000, or about one-third of their capital stock invested in common securities, drawing from 4 to 5 and 5½ per cent interest, is it correct speaking to say that the investment in these bonds of the Government to secure their currency diminishes their capital for purposes of loans and discounts?

Mr. FAIRCHILD. The requirement that a bank can only issue notes

against a deposit of Government bonds diminishes the amount of capital that a bank has to loan to the customers in that portion of the country where the people want to use bank notes.

Mr. BROSIUS. Do you mean in those portions of the country where the banks can use all their capital in the accommodation of their patrons?

Mr. FAIRCHILD. Where their patrons want bank notes for their accommodation. It is the way banking business is done. In those regions everything that is put into Government bonds diminishes their facilities for loaning to the people in that neighborhood.

Mr. BROSIUS. If they get back from the Government an equal amount of notes, how does it diminish their funds for loaning purposes?

Mr. FAIRCHILD. A bank has \$100,000 of capital, leaving off all questions of premium. That bank sends up \$100,000 to New York and receives \$100,000 in notes. It loans those notes to the customers of the banks. Then it has loaned them \$100,000. If it did not send that money to New York to buy bonds it would loan the \$100,000 to the people in the neighborhood, and it would receive this \$100,000 of notes and would loan those to the people in the neighborhood the same as it had the notes against the bonds, and then it would have loaned the people in the neighborhood \$200,000 instead of \$100,000.

Mr. BROSIUS. But that involves the assumption that you can issue against your assets \$100,000 in addition to your capital?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. That was not in my inquiry.

The CHAIRMAN. It is involved in it, however.

Mr. BROSIUS. No, because that is a different condition. I say the currency issued against the assets of a bank is a totally different currency. A bank that has \$100,000 in capital can loan that much to its customers if they need that much, and it does not make any difference whether they loan their capital in the form in which it is subscribed to the concern or turn it over to the Government and get an equal amount of other kinds of money. In either case they have the same amount to lend to their customers, do they not?

Mr. FAIRCHILD. No, sir. In one case they have just half as much.

Mr. BROSIUS. That answer shows that you have in your mind that the bank can issue \$100,000 against its assets.

Mr. FAIRCHILD. No; it can issue only to the amount of its capital.

Mr. BROSIUS. The capital is not against its assets. That stands for itself. If you get \$100,000 more than the capital, you have issued it against the assets. Then you have \$100,000 of capital which you can issue for your customers and you have another \$100,000 of notes issued against your assets. That makes \$200,000, but that last \$100,000 is not involved in my inquiry. I am not supposing, for the purpose of this inquiry, that \$100,000 can be issued against it. It can not be done now under our banking system. The point of my inquiry is that when a bank has \$100,000 of capital it can issue that to its customers, it can use it in its business if it desires to do so, and need not take out any circulation at all. It uses that and its deposits. If it prefers to take out, to buy \$100,000 of bonds and invest its capital in that, it does so and it receives from the Government \$100,000, so it has the same amount of money to accommodate its customers that it had in the beginning. That is clear.

Mr. FAIRCHILD. Yes; that is clear.

Mr. BROSIUS. Then, so far as that is concerned there is no diminution of capital, is there, Mr. Fairchild?

Mr. FAIRCHILD. None but whatever incidental expense attaches.

Mr. BROSIUS. Yes; that is incidental to all banking. The experience of banks has been and is that nine times out of ten the bank can not safely keep all its capital in its vault to be used in loans and discounts, because that capital is expended. It costs them one dollar for every dollar they have, and therefore, to avoid the loss of keeping it idle while it waits a call of some nature, they invest it in permanent securities and get their interest from year to year; and that is the reason that one-third of the total capital stock of the national banks of the United States is thus invested. Now, then, how does the taking of bonds in that case diminish the stock of the bank that it would use in the banking business?

The CHAIRMAN. Do you mean to say that these bonds are over and above what is necessary to get out the circulation that they have got?

Mr. COX. No.

Mr. FOWLER. Yes.

The CHAIRMAN. Your question involved this, that they have invested in these bonds purely as a matter of investment, without reference to taking out currency on them.

Mr. BROSIUS. Yes, because they can not take out currency on securities in which they invest their money, but only on the bonds which they buy from the Government of the United States. One-third of the investments of the banks is in securities outside of the Government, investments which the banks have to make to make as much money as they want.

The CHAIRMAN. Does not that show that there is more banking capital than can be invested?

Mr. BROSIUS. Yes, certainly, and therefore I say it does not diminish the use of capital to buy United States bonds.

The CHAIRMAN. In that locality; you do not mean all over the United States?

Mr. BROSIUS. There are localities, of course, where Mr. Fairchild's view is entirely unobjectionable, where they could use all their capital, and therefore by buying bonds would diminish their capital. But I am speaking of the other case.

GOLD RESERVE FOR REDEMPTION.

It is necessary under our system, is it not, to keep somewhere a gold reserve to redeem the demand obligations of the Government?

Mr. FAIRCHILD. I think so.

Mr. BROSIUS. Do you not think that a consolidated gold reserve is preferable, because more effective and useful than a distributed reserve of gold?

Mr. FAIRCHILD. I do not.

Mr. BROSIUS. Let me be a little clearer on that point. Do you not think, supposing that it would take \$200,000,000 of gold as a reserve somewhere to meet the demand obligations, that that \$200,000,000 would be a greater security and be more effective and safe if it was all in one place than it would be if it was apportioned among 5,000 banks?

Mr. FAIRCHILD. No; I do not.

Mr. BROSIUS. John Stuart Mill—and I ask this question particularly on that account—makes a strong point on the desirability of a consolidated in preference to a distributed fund for the purpose of reserve. In your clearing houses do you not operate upon the principle that when you mass the resources that have to be drawn upon they are stronger than when they are distributed?

Mr. FAIRCHILD. You mean when they issue clearing-house certificates?

Mr. BROSIUS. Yes.

Mr. FAIRCHILD. It is not that. It is that when the clearing-house certificates are issued it enables the strong banks to help the weak banks. The strong banks really loan to the weak banks. That is what the clearing-house certificates amount to.

Mr. BROSIUS. Is not that the principle of a consolidated reserve; that all the strength is brought to one point, and you eliminate the weak banks? Every bank would have such a measure of this reserve as to make it safe under all circumstances.

Mr. FAIRCHILD. I do not think that your financial condition would be so strong, if you mean that the reserve is to be in the United States Treasury; for instance, as if it were distributed among the banks that had the obligations. My observation of the operation of it in the past few years would lead me to think so. The gold going out of the Treasury takes a great deal of gold with it that would not go out if it were not for this visible large depletion. There comes in a moral effect which I think has resulted in taking a great deal of gold that otherwise would not have gone.

Mr. BROSIUS. Suppose a draft comes on one bank, which is more than it can stand. It refuses gold. It suspends gold payment. Does not that produce alarm in the next bank, anticipating that the draft upon the former bank would be transferred to it; and will it not take alarm and likely suspend also; and so on with the banks, one after another, throughout the country, in the case of a large draft?

Mr. FAIRCHILD. That would be produced equally either when the bank was unable to meet its obligations in gold, or unable to meet its obligations in anything else. The same effect would be produced on credit generally and on other banks. If the bank under our proposed system could pay at all it could pay in gold. The banking system we propose might go into operation perfectly well if all the greenbacks were preserved and the silver preserved. I think if a bank had its reserves in greenbacks, United States notes, or if it ought to have its reserves in them and did not have them, and was not in a condition to meet the drafts upon it, the moral effect in producing a curtailing of credit by its failure to redeem in greenbacks would be as great as its failure to redeem in gold. I think the moral effect in the one case is the same as in the other.

Mr. BROSIUS. Do you think it is to the same extent?

Mr. FAIRCHILD. Oh, yes; I think so.

Mr. BROSIUS. Take a situation similar to that of 1893, when nearly \$400,000,000 of deposits were drawn out of the national banks in a period of five months, curtailing loans and discounts to the amount of between \$300,000,000 and \$400,000,000, when the holders of gold were hoarding it, as was testified before this committee—in one instance a man had \$240,000 of gold put in a safety deposit box, and in another case a man had \$50,000, and in another case a man had \$40,000 in a safety deposit box, and so on; when people were keeping their gold in safe deposit vaults and foreign securities were coming back to us for liquidation. Take the whole situation as you picture it in your mind, and we all remember it distinctly, and state whether you think that your banking bill, when in full and perfect operation, could encounter such a situation without the banks closing or suspending gold payments?

Mr. FAIRCHILD. I think so. If you will allow me to diverge, I think

the curious phenomenon of 1893 was that the people hoarded not only gold, but they hoarded bank notes and silver certificates and every form of money. That was the peculiar feature of that time.

EXPANSION OF CURRENCY.

Mr. BROSIUS. Under your bill, which allows the issue of currency against the assets of a bank to the amount of the unimpaired capital, is there not danger at times of unduly extending the currency?

Mr. FAIRCHILD. None whatever, I think.

Mr. BROSIUS. You think there is no danger; but upon what data, upon what principle, did you reach that conclusion?

Mr. FAIRCHILD. The expansion that takes place is not the expansion in the use of bank notes. It is, in the first place, the desire of people to speculate. They begin to borrow from banks, and when they begin to borrow from banks they begin to have their borrowings put to their credit in banks. That is the rule. That increases the loanable funds at once, not credit money but the credit facilities. A 25 per cent bank will have three or four times its capital, and a 15 per cent bank will have 6½ times its capital and surplus, and so on. The bank note is only a form in which the expansion appears, and the smallest form, because if it is limited to its capital you will see that that is the limit of the expansion, and it is merely a form for the people who happen to want the bank notes for the purposes they are used for—to take their loans which they are getting. So, compared with the other, it is a little thing, and it does not seem to me—and we considered that very carefully—that there is any danger on the point—the expansion that we hear of. The danger has not come from that. They may fail to redeem their bank notes, but the reason they fail to redeem their bank notes is not because of the quantity of the bank notes but because the quantity of the general expansion has doubled their resources—by making bad loans, for instance. The bank-note feature is a small element in it, and I do not think that under any of these principles, if we confine it to capital or within the region of capital, we have any reasonable ground for apprehension.

The CHAIRMAN. Is it not a fact that the minute a bank is threatened all the business community rushes to increase their discounts and loans and deposits, and that that is what intensifies the panics so much, plus the drawing out of deposits?

Mr. FAIRCHILD. You mean it tends to borrowing of more money?

The CHAIRMAN. Yes. They want to increase their loans and discounts.

Mr. FAIRCHILD. Yes, they do that.

The CHAIRMAN. Banks then say: "We can not increase your loans, but we will take care of you;" and saying that all over the country checks the panic. That is true, is it not?

Mr. FAIRCHILD. Yes.

CURRENCY ISSUED AGAINST DEPOSITS.

Mr. BROSIUS. Do you think it desirable, and if so, on what principle, to issue currency against deposits?

Mr. FAIRCHILD. I have never gone into that question particularly. I have heard gentlemen talk about it, and advocate it, but not thinking it necessary for our purposes to go beyond capital I have not given any great consideration to that subject.

Mr. BROSIUS. You do not catch my point. I say issue currency

against deposits. Your bill provides for issuing currency against the assets of the banks. Of course, you understand that the deposits are a part of the assets.

Mr. FAIRCHILD. Oh.

Mr. FOWLER. The deposits are not assets.

Mr. BROSIUS. Yes, they are.

Mr. FOWLER. They are liabilities.

Mr. BROSIUS. Take all your deposits. Your currency is the first lien upon all the assets of the banks.

Mr. FAIRCHILD. You mean the reverse. The deposits are a liability. The deposits are a lien upon the assets.

Mr. BROSIUS. I do not care about the use of technical words. The point is, that when you issue the currency against the assets of a bank and make those notes the first lien upon the assets that act covers the deposits and the depositor loses his money just in proportion as his money is taken to make good the notes. Do you think it desirable, on general principles, to issue currency against assets and make that currency the first lien upon the depositor's money in the vaults of that bank?

Mr. FAIRCHILD. I do.

Mr. BROSIUS. Upon what principle can you justify it?

Mr. FAIRCHILD. A depositor need not put his money there unless he wants to. He knows what the arrangement of the bank is. That is true to-day.

Mr. BROSIUS. You say that is exactly what you do to-day?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. On the contrary, the way it is now is this: The bank has placed in the custody of the Government property enough to cover its notes, and of course you may say that bonds are a part of the capital in the bank. At the same time the bank can never get away with those bonds, because they are in the hands of a trustee; but in your system you propose to keep the property of the bank in the hands of the bank and make the currency the first lien on the assets of the bank. If the assets have been disposed of, that is true; that is, if they have taken feet and walked away or taken wings and flown away you do not get them; and the depositors have to lose as much of that money as was taken to make good those notes.

Mr. FAIRCHILD. That is true.

Mr. BROSIUS. That is under the present system. Now, is it a suitable business for the Government to engage in to authorize a bank to be established and invite the deposits of the people and authorize the bank to issue over and above its capital an equal amount of currency against its assets and make that a first lien on these deposits of the people?

Mr. FAIRCHILD. I think that is eminently proper.

The CHAIRMAN. Is not that done in every business?

Mr. BROSIUS. No.

Mr. FAIRCHILD. Let me show you how this thing can work under present arrangements. You know a bank is not obliged to issue notes. The requirement is only \$50,000 in United States bonds. That bank may advertise that it holds \$1,000,000 of capital and has no United States notes out at all. Therefore its million dollars of capital is security for all of the deposits. To-morrow it can invest its million dollars of capital in United States bonds and take out notes against it and make those notes a prior lien on all its assets, not only by buying bonds in that way, but in the law itself every note is a prior lien upon all the assets of the bank. We studied that very carefully. The very

point you make we considered carefully and objections were made to it. Bankers said, "Our depositors will be afraid if it can be said, 'The notes have a prior lien upon our assets.'" When we came to look into it to see how little difference there was as to how they might do now, and what they could do under the plan proposed, while some weight is to be attached to your point—that I concede—I do not think it is so great as you attach to it. We found that apparently depositors did not select their banks because of their capital and surplus, but went where the biggest deposits were, or, in other words, the biggest liabilities, and therefore we felt that while there is a little something in it, it is not a serious consideration. Then we said "If any bank feels that it can benefit itself and secure deposits by putting a portion of its assets, wherever it chooses, in the hands of a trustee as against its circulating notes, and then advertise to keep with that trustee a certain portion of its assets for this purpose, and that therefore people would be safe in depositing with them, there is nothing in the law to prevent them from doing that." Depositors would deal with them in either event with a full knowledge of the case.

Mr. BROSIUS. You do not suggest that as a feasible proposition—that the banks would voluntarily put their funds in trust?

Mr. FAIRCHILD. It might be.

Mr. BROSIUS. Do you not know that no bank would ever do that?

Mr. FAIRCHILD. Then they would not do it because it would not pay them to do it.

Mr. BROSIUS. It pays them to keep their own funds in their own hands. But take the case of a bank in which there is improper management, fraud, or even crime, and the assets disappear. As much of their assets as are in the hands of a trustee are saved. The note holders and the depositors save that much.

Mr. FAIRCHILD. But if you are going to have fraud and mismanagement—criminal management—of a bank, I do not believe under either system the depositor will get much.

Mr. BROSIUS. There might be a case in which he would not, but we must consider the question on the average cases.

Mr. FAIRCHILD. I think what you must take is the average of misfortune, incompetency, and so on. I think we must leave fraud out of the question, because I think that will be so small in a great business community such as ours that it is almost a negligible quantity. When you take the experience of the past you will find that the statistics of our national banking system, and of the banks, and what has been collected out of their assets from the beginning, and all that, show that these questions which arise in your mind, and which will arise to others—and we went all through with them—are not necessary to take into consideration, except to investigate and see how small a thing it would be in the whole of this great business. Therefore, we ought not to hamper a system because of the possibilities that may arise, any more than we would stop doing any business because we might have dishonest clerks. We have got to take this law of averages into consideration in a thing of that sort.

Mr. BROSIUS. You are viewing it in the aggregate when you say it is small?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. Take a bank of \$100,000 capital which invests \$50,000 in bonds and places them in the hands of the Government. That is \$50,000. Is that a mere bagatelle to the depositors when they come to lose their money?

Mr. FAIRCHILD. I am afraid it is not in the cases where banks are fraudulently managed. I am afraid that is all there is in those cases. In a case of fraud—in a case of absolute dishonesty—a man will take whatever his opportunities give him. Therefore the depositor is in the same position.

Mr. BROSIUS. The note holder is secured at the expense of the depositor?

Mr. FAIRCHILD. In the present system he is. Now, in the case of fraud you speak of, very probably the assets of that bank, so far as the note holder and the depositors both were concerned, would have disappeared; but we have provided against that by our guaranty fund. So, that being a strong reason for giving the notes a higher position than the deposits—

Mr. BROSIUS. But you fall back upon the assets of the bank?

Mr. FAIRCHILD. For what they are worth.

Mr. BROSIUS. Yes; because you make your fund good out of the assets of that bank.

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. And in doing that you take that much money away from the depositors?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. So in any event the loss falls upon the depositors?

Mr. FAIRCHILD. It always does.

Mr. BROSIUS. Is it not fair to assume that in cases of fraud such as you suggest, where the capital of a bank is simply gobbled up, if they had not deposited a certain amount of capital in place of the bonds, they would have stolen that also? And is it not a clear question of saving whatever amount of bonds they deposit?

Mr. FAIRCHILD. They would have stolen that also.

Mr. BROSIUS. They can not steal bonds, you know.

Mr. FAIRCHILD. They have stolen the whole business in the same way. The net result in dollars and cents to the stockholders of that bank is the same. Of course when they have invested in common bonds, they have their notes banked, because they have run away, and have done the same thing with the deposits. The notes stand there to get the United States bonds, but the capital and the stock and everything is gone.

Mr. BROSIUS. No; but the bonds are not gone, Mr. Fairchild, and therefore the note holder is made whole.

Mr. FAIRCHILD. That I admit—that the note holder is made whole; but every dollar that was put into that bank is gone.

Mr. BROSIUS. I do not see it in that way, because the bonds were paid for by a part of the capital, and that portion could not be gotten away.

Mr. FAIRCHILD. The only thing that remains at present is the difference between the premium on bonds and the amount of notes that they got.

Mr. BROSIUS. Whatever remains goes to the note holders to pay the notes?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. The point that I make is, that if a portion of that capital had not been invested in the bonds the whole thing would have been stolen, and neither note holder nor depositor would have gotten anything.

Mr. FAIRCHILD. As far as the note holder is concerned, we have provided for taking care of him as securely as he is taken care of now.

Mr. BROSIUS. I understand that.

Mr. FAIRCHILD. Now, there is no way that I know of to protect the stockholders and depositors except by greater vigilance in your examinations and that sort of thing.

Mr. FOWLER. By an insurance fund?

Mr. FAIRCHILD. Yes; an insurance fund, such as Mr. Fowler speaks of, would be something. But I know no way, unless you stop the banking business altogether, to guard against the things you are considering.

PROPOSED SYSTEM WOULD BE POPULAR WITH BANKS.

Mr. BROSIUS. That leads us to another inquiry that you suggested. What is your opinion on the subject of the acceptability of this guaranty principle to the banks of the country?

Mr. FAIRCHILD. I think they would all accept it in a very short time; and I think if 100 banks would accept this plan that the whole of them would accept it in a short time. I was thinking as I came up here that the apprehension that Secretary Gage expressed about some banks not going into it in some respects is not well founded. I think that it is reasonable to anticipate that they would go in; that they would be satisfied that their risk was so small, as distinguished from the advantages to them, that they would practically all accept it. I do not have any apprehension on that point. If I was the owner of a large bank I would not have the slightest hesitation in going into it.

Mr. BROSIUS. That, I suppose, was the consensus of opinion of the Commissioners?

Mr. FAIRCHILD. Yes, after very carefully considering that point.

Mr. BROSIUS. Did you have any very considerable communication with bankers upon the subject?

Mr. FAIRCHILD. Yes, sir; we did.

Mr. BROSIUS. That is the basis of your opinion?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. I ask because I have heard some adverse opinions.

Mr. FAIRCHILD. That, of course, is the first and obvious view of a banker. But when you look at the statistics and see, as I have said, that if our system had been in operation since the beginning of the national banking system, and they had all had 80 per cent of their capital out, the assessment on all would have been only one-fortieth of 1 per cent per annum of that 80 per cent to make up the loss which would have taken place had the same failures occurred. It is reduced to so small a sum that I was convinced that there was no danger.

Mr. BROSIUS. That is proceeding upon the assumption that the ratio of losses would be the same under your system as it was under the present system?

Mr. FAIRCHILD. Yes. I could not see where they would be any larger.

Mr. BROSIUS. I want to inquire whether you think that is valid reasoning or not?

Mr. FAIRCHILD. I think so.

Mr. BROSIUS. Is it valid reasoning to estimate the losses under the system which you propose, in which there is no security, upon the losses which have occurred under the present system?

Mr. FAIRCHILD. Yes, I think it is absolutely correct.

Mr. BROSIUS. I have heard financiers say that is not valid reasoning, and I am of their opinion. It is a little like a town that has a police force. If you are going to pay for all the property that is stolen, and

you have had an efficient police force, it would not do to infer from losses under that system what amount would be necessary to pay for stolen property in the next ten years, if the police force is abolished.

Mr. FOWLER (To Mr. Fairchild). You expect to increase your police force, do you not?

Mr. BROSIUS. No, because you dispose of your security.

Mr. FAIRCHILD. That element does not enter into it.

Mr. BROSIUS. You think that is not a fair illustration?

Mr. FAIRCHILD. Not a fair illustration; and the question of the security in this calculation is quite aside from that.

Mr. FOWLER. I want to ask Mr. Fairchild whether, in the commission's report, they do not propose to increase the police force in the examination and supervision of banks?

Mr. FAIRCHILD. Yes; we would recommend that everything should be done in that direction which it is possible to do.

Mr. VAN VOORHIS. I have been absent, and no doubt this question has been gone over time and time again, but I want to inquire from Mr. Fairchild whether he thinks our present stock of money is sufficient for the transaction of our business?

Mr. FAIRCHILD. I can not say. I have no opinion on that subject. I might say, if you will allow me, that it is not a subject that it is worth while to have any opinion on, as in my judgment there is nothing on earth we could do about it in the way of legislation if we thought there was not enough. The stock of money is not a thing the Government can do anything about.

Mr. VAN VOORHIS. Your proposition here is not with a view of directing or extending the currency, but putting it on a better basis?

Mr. FAIRCHILD. That is all. The money will take care of itself?

Mr. VAN VOORHIS. Do you not think we could retire a portion of the obligations of the Government, and by retiring the small notes and refunding the bonds that are now outstanding, on a 2½ per cent basis, perhaps, do you not think we could have a secured currency?

Mr. FAIRCHILD. That would not be sufficient. We could have secured currency, but I do not think that a secured bank-note currency at all answers the purposes of a community in its true sense of a bank currency.

The CHAIRMAN. What do you mean by "secured"?

Mr. VAN VOORHIS. Secured by bonds.

Mr. FAIRCHILD. Of course, it is all secured, but it is the method of securing it.

Mr. VAN VOORHIS. I have questioned all the way through the propriety of issuing this credit currency; unless we could have a secured currency based on the bonds of the Government. I believe that would be better.

Mr. FAIRCHILD. You can not have a currency based on the deposited bonds of the Government that is any more secure than the currency we offer here. It is not a bit more secure and not nearly so useful.

Mr. VAN VOORHIS. Then you think the only remedy is a credit currency?

Mr. FAIRCHILD. That is the kind of currency we provide here.

Mr. MITCHELL. Mr. Fairchild, I find in the magazine published in New York, known as the Commercial and Financial Chronicle, under date of January 15, an allusion to your bill, which I will read to you, and then I will give you the article itself, in order to ask you to kindly give again your explanation of the criticism which was made here on the subject of your bill.

The article is as follows:

We notice that Mr. Fairchild, at a hearing before the Banking and Currency Committee on Thursday, in answer to a question by Mr. Cox, of Tennessee, stated that, under the bill of the Monetary Commission, if a bank elects to redeem its notes in silver it can do so, although the note holder requires and demands gold. Assuming that the press report of Mr. Fairchild's answer is correct, we doubt the wisdom of the proposed measure. Domestic currency is not the world's money, but a mere substitute for it. We give the bank the privilege of issuing that substitute because it is in closest touch with commerce, and on the supposition that nothing but commerce will affect its free and absolute interchangeability into the money of commerce. Give the bank a statutory license to redeem its promise, at its option, with 45 cents' worth (commercial value) of silver, and at once a disorganizing force is introduced, causing, as some would claim, a worse, because a less facile, state of things than now exists. In such a case the burden, whenever it becomes a burden, of getting gold to redeem the bank's promise, is put on the merchant holder of that promise. To do that he must draw silver, carry it to the Treasury, wait to get it counted, and risk, in any serious crisis, a Treasury default. But even this friction reveals by no means the most serious defect. The strain to pay the note and sustain its convertibility should rest wholly on the bank, or the currency can not be free from seriously disturbing influences. If that is not the legal arrangement, the tendency of the notes will be to drive out gold, keep the accumulations of that metal in this country at a minimum, make business susceptible to wide disturbances from slight causes, while otherwise impairing free automatic curative action, which attends and is the reason for enforcing perfect redemption by the issuer.

MR. FAIRCHILD. Of course I have great respect for what the Financial Chronicle says, but they do not comprehend the conditions in regard to the matter at all. The bank notes can be redeemed in the lawful money of the Government, and if there is any trouble about it it comes from the condition of lawful money of the Government. In my judgment you can not wisely exclude from the function of redeeming the bank notes any of the things that the Government makes lawful money. Otherwise you discredit that lawful money and force it back upon the Government in larger sums than would go there otherwise, because you cut off one very large use. I do not think any law can wisely discriminate against any money of the Government. So far as the question of the silver is concerned, I have explained that making that silver specifically redeemable in gold, without going through circuitous payments—making it directly payable, redeemable—in my judgment, simply prevents less of it being paid into the Government in its revenues than otherwise would be paid, because people who have it do not pay it into the Government in anticipation of a future need of gold. Knowing that it is gold, potentially, at all times, they will not try to get the gold upon it in any form until they actually need the gold. Therefore the Treasury will be burdened with less of those funds, with less silver—if it is a burden to-day—by directly caring for it than it will by caring for it in this circuitous manner. Then we have provided that all notes below \$10 shall be retired, that there shall be no notes below \$10 except the silver, and therefore the silver must fill the vacuum in the community; and no bank in practice would redeem any considerable portion of its notes in silver, because it would be obliged to keep the silver on hand to meet the wants of the customers who wanted silver.

It would have to keep the silver to meet the demands of the people who wanted to pay wages and all that sort of thing, and therefore I think that practically, the soundness of it all being assured, the bank notes would not be redeemed in silver, unless fears came, by reason of an approaching election or something of that kind, that the Government was not going to keep its promise in regard to it, and might change its laws. In that event, of course, the Treasury would get plenty of silver, and everybody would be hurrying to get rid of it. But under the conditions of our bill, or any of these other bills provided here, they

becoming law, and the world being quite assured that they would continue as the law, being fixed, there would be no trouble on any of these points; that once established, greenbacks would not be presented in any considerable sum to the Government for redemption, and I may say I apprehend that under our bill those greenbacks, or a large portion of them at any rate, would be in existence a great many years, until long after the life of the youngest of us here.

Mr. FOWLER. On this point I will ask you, do not you believe that if the silver was in circulation instead of certificates, less of the silver would be shipped in for redemption than of the certificates, which would be gathered up so much more easily and shipped at so much less cost?

Mr. FAIRCHILD. If the silver was in actual circulation?

Mr. FOWLER. Yes.

Mr. FAIRCHILD. No.

Mr. FOWLER. You think the silver would be shipped in more readily than the certificates?

Mr. FAIRCHILD. I think more silver will remain in circulation in this country if we permit this circulation to be in certificates rather than in actual coin. I may be wrong about that, but I base my opinion on my experience in the Treasury, where I tried the experiment and saw what the result was. I think that our people have the habit of carrying paper money in their pockets, and where they would carry \$50 in silver in the form of certificates, they would not carry \$10 in coin.

Mr. FOWLER. When a man carries \$50 he doesn't carry it in ones, twos, and fives, but he carries it in tens and twenties.

Mr. FAIRCHILD. No; I have \$50 in my pocket now in 5 dollar bills.

Mr. FOWLER. That is unusual.

Mr. FAIRCHILD. No; I never get anything but that—\$50 in that, and every dollar in that is silver, too. I could not have that amount if it was in silver dollars.

Mr. FOWLER. But you would have it if we had the silver up to \$10 in coin and above that in bills. It would be less bulky than that. Why couldn't you carry five tens instead of ten fives?

Mr. FAIRCHILD. Simply because when you begin to get it above \$10 it is lying in the vaults of banks and is in a position to draw gold from the Treasury or to be paid into the Treasury. When it is in this form, such as I have, it is in a convenient form.

EXPERIENCE WITH THE SHERMAN NOTES.

We had that experience with the Sherman-law notes. When they were first issued at the custom-house in New York there were about 95 per cent of the receipts in gold. Those Sherman notes were paid out in the city of New York to pay for the silver bullion. They were in denominations of not less than \$100, owing to the lack of facilities in the Bureau of Engraving and Printing, and for some time they paid them all in denominations of not less than \$100. Of course they all went into the banks. The banks could not use 100-dollar notes with many of their customers, and so they were turned over to the importers who wanted to pay duties, and went straight back into the custom-houses. You will find from day to day a diminution in the revenues of the Government in gold, its place almost to a fraction of 1 per cent being taken by these large Sherman notes. When they began to issue them in small denominations the receipt of the Sherman notes began diminishing again, carrying out my theory that they went into the pockets of the

people, and were not turned back on the Government as they were when in big denominations. Therefore I advocate silver in small denominations for the purpose of keeping it in the pockets of the people, not causing an undue demand on the Government for its redemption or an undue payment to the Government of it. I have based that on the experience I have had.

Furthermore, in 1885, when I was in the Treasury, we had about \$94,000,000 free silver that belonged to the Government, against which there were no certificates outstanding. The country would not absorb it. Nearly all our principal funds were in the form of silver, and we were afraid we would not be able to give the people the choice as to what money they should take; that we would have to give them silver, and that it would go to a discount. So Mr. Manning, the Secretary, ceased reissuing one and two dollar greenbacks, and people had to use the silver dollars for ones and twos.

Mr. FOWLER. That worked, did it not?

Mr. FAIRCHILD. We found the silver diminishing under that, but we were making \$2,000,000 a month of it under the Bland Act. We seemed after a time to reach the limit, and our stock began to accumulate again, and then—I was Acting Secretary of the Treasury then—I got Congress to permit the issuance of silver certificates in denominations of less than \$10. The law before that did not permit silver certificates to be issued in denominations less than \$10, so I issued \$5 and \$2 and \$1 silver certificates. Almost immediately our stock of silver began to diminish, showing that the people would carry them in the certificate form when they could not carry them in the coin form, and from that time forth to the end of the Bland Act the whole amount of coinage appeared in the form of less than \$10 notes, and a large portion of the certificates above \$10 that had been in the Treasury was reduced, and the condition of things came about where the Treasury owned very little silver. So this plan was based on these experiences within my own knowledge.

Mr. SPALDING. I made a statement here, if I remember rightly, that the national banks had no power to purchase notes. [See page 233.] That statement seems to have been questioned, so I went to the law library, and I will introduce Fifty-second Maryland, 1879, one of the leading cases on that question. I will read only the syllabus:

A national bank has no authority under the banking act to issue its funds in purchasing notes, and can acquire no title thereto.

Mr. JOHNSON. I want to add that there are a couple of Minnesota cases which decide the same way, and also one case which decides directly the opposite. Those are set out in the report of the Comptroller of the Currency for this year in his digest of national-bank decisions. The national-bank act itself confers the power on national banks to discount paper.

CHEAP CURRENCY.

Mr. FOWLER. Mr. Fairchild, Mr. Brosius questioned you in regard to the cost of currency to a bank. Is it not true that that currency secured by Government bonds is paid for in advance, while the other currency is paid for when it is returned for redemption. Both are paid for in the same way. That is the only difference, is it not?

Mr. FAIRCHILD. I think so.

Mr. FOWLER. Two per cent bonds as a basis, with no tax on currency, is cheaper currency than capital without bonds, is it not?

Mr. FAIRCHILD. Where they get 2 per cent?

Mr. FOWLER. Yes; get an equal amount. It is cheaper currency than currency without the bonds?

Mr. FAIRCHILD. It is more profitable.

Mr. FOWLER. The rates of interest in Canada range only from 5 to 7 per cent between its cities and country districts, where the disparity in the conditions is as great as here. Is it not clear, then, that the Canadian system has equalized rates of interest throughout the Dominion?

Mr. BROSIUS. Has tended to do so, you mean.

Mr. FOWLER. Practically equalized the rates of interest throughout Canada?

Mr. FAIRCHILD. We all believe that they have tended to do so.

Mr. FOWLER. Is it not a fact that the rates of interest in the United States range all the way from 1 per cent on call in New York to 36 per cent in some of our most distant districts?

Mr. FAIRCHILD. I believe they do.

Mr. FOWLER. I mean in different parts of the country.

Mr. SPALDING. All other things being equal? No; they do not differ that much.

Mr. BROSIUS. Some pawnbrokers charge 2 per cent a week.

Mr. FOWLER. I am speaking of bank loans.

Mr. HILL. I do not believe a bank ever loans at 30 per cent in any part of the country.

Mr. FOWLER. The cost of secured currency depends upon the premium and the tax upon circulation, does it not?

Mr. FAIRCHILD. Certainly.

Mr. JOHNSON. Under what system?

Mr. FOWLER. Under any system. The cost of the bond-secured currency depends upon the cost of bonds, or the difference between the amount issued and the premium. That would be between 90 and the present value of the bonds and the tax that the currency bears, would it not? That would be the cost of that currency, would it not?

Mr. FAIRCHILD. I think so.

Mr. FOWLER. A tax on credit currency or a currency based on assets may be high enough to make it more expensive than our present system, may it not?

Mr. FAIRCHILD. Yes, sir.

Mr. FOWLER. So costless currency is a mere myth?

The CHAIRMAN. Do you assent to that?

Mr. FAIRCHILD. I do not.

Mr. FOWLER. Mr. Walker's hypothesis in regard to what currency might cost or might not cost is based, is it not, upon whatever margins of security are required by law and whatever taxes are imposed on the circulation?

Mr. FAIRCHILD. Why not ask Mr. Walker?

Mr. FOWLER. The cost of any currency depends entirely, does it not, upon the burdens that are thrown upon the capital in some form or other, and the cost of currency of any bank is based entirely upon whatever burdens are thrown on the capital of that bank?

Mr. FAIRCHILD. I should think so.

Mr. FOWLER. Bonds at 2 per cent would hardly be at a premium; would they?

Mr. FAIRCHILD. They are not now.

Mr. FOWLER. They would hardly be at a premium at any future time, would they?

Mr. FAIRCHILD. Oh, I do not know. I can not guess about that.

Mr. FOWLER. They would not if they were subject to call by the Government?

Mr. FAIRCHILD. It would depend upon the condition of premium of Government resources.

Mr. FOWLER. If they were subject to call the probability is that a bond would not be at a premium at 2 per cent?

Mr. FAIRCHILD. The probability is that it would not.

Mr. FOWLER. The Comptroller of the Currency to day is virtually the sole arbiter of the banking situation, so far as banks may be started or rules may be established for the control of banking, is he not?

Mr. FAIRCHILD. I believe so.

Mr. FOWLER. If your bill should become a law, is it your belief that practically all State banks will avail themselves of its privileges?

Mr. FAIRCHILD. That was the belief of some of those who are familiar with State banks—that a large number of them would avail themselves of it.

Mr. FOWLER. If they should, there would be under the control of the Comptroller 8,000 banks, approximately?

Mr. FAIRCHILD. Yes.

BRANCH BANKS.

Mr. FOWLER. With present assets amounting to about \$7,000,000,000? You remarked yesterday that you thought a branch should not be started unless a certain addition was made to the capital, stating that it ought to be the same amount that would be necessary to start an independent bank in the place where the proposed branch was to be established.

Mr. FAIRCHILD. That is a mere suggestion of mine, that they should have no more branches than their capital would suffice to start banks in the places where they proposed to start branches.

Mr. FOWLER. If they were independent banks?

Mr. FAIRCHILD. If they were independent banks; yes.

Mr. FOWLER. But do you not know that it is generally considered that the increase of the capital of the larger banks need not be over one-half that amount, and usually not more than one-third of what it would have?

Mr. FAIRCHILD. Your last question is based on a misunderstanding of my answer to your first one. I did not speak of the increase. A bank with a million dollars in capital under this bill might have 25 branches on the \$25,000 plan.

Mr. FOWLER. But, as I understood your proposition yesterday, you do not believe that it is wise to have a branch started by the large bank unless the capital of that bank is increased by as much as it would really make—

Mr. FAIRCHILD. That was not what I said. Your question shows there was a misapprehension of my answer.

GOLD REDEMPTION.

Mr. FOWLER. The purpose of your bill is to secure gold redemption of all the notes passing through the Government, is it not?

Mr. FAIRCHILD. That is one of the purposes.

Mr. FOWLER. That is the theory of it—that that is gold redemption, I mean.

Mr. FAIRCHILD. Yes.

Mr. FOWLER. But, as was stated here this morning by Mr. Mitchell,

in reading from the Chronicle, no private individual can demand gold, can he, upon presenting a note to the bank?

Mr. FAIRCHILD. He can demand lawful money.

Mr. FOWLER. And that may be silver, or it might be a certificate or a greenback, or it might be a Treasury note or subsidiary silver, and they could pay him what they pleased?

Mr. FAIRCHILD. They could not pay him subsidiary coin.

Mr. FOWLER. Except within the limit. Do you not think that such a discrimination against the private citizen would be resented by the people, and the measure repudiated by them because of such discrimination?

Mr. FAIRCHILD. I do not.

Mr. FOWLER. Your bill provides, does it not, that all primary and current redemption shall be through the United States Treasury and subtreasuries?

Mr. FAIRCHILD. And at the banks.

Mr. FOWLER. Yes; and at the banks. Is not one of the great evils against which we are now trying to legislate, the congesting of money at the centers?

The CHAIRMAN. Paper money.

Mr. FOWLER. Is not that correct? Is not that one of the great evils to-day, the drifting of money from the outlying districts to the centers, and the congestion there inducing speculation?

Mr. FAIRCHILD. Well, I do not think that we are trying to legislate in regard to that. In our bill we are trying to give more natural conditions, and possibly the outcome of that will be, as we believe, a better distribution of the loanable capital.

Mr. FOWLER. Do you not think that the tendency after including the credit currency, and still having it redeemed through the United States Treasury, would be to aggravate the present situation?

Mr. FAIRCHILD. I do not.

Mr. FOWLER. You do not think, then, that this bill aggravates that condition—makes the condition worse?

Mr. FAIRCHILD. No; I think it makes it better.

Mr. FOWLER. National banks generally have a reserve largely in excess of the requirements, do they not?

Mr. FAIRCHILD. No.

Mr. FOWLER. Is not that true to-day?

Mr. FAIRCHILD. No; not much. It is a little larger than required, but very little.

Mr. FOWLER. I will reserve the right to insert the amount.

Mr. FAIRCHILD. It is a very slight thing.

Mr. FOWLER. Then they might hold a large amount of these, or such an amount as exceeded their reserves?

Mr. FAIRCHILD. They can not hold them in their reserves.

Mr. FOWLER. By so much as they exceeded their reserves they could hold them in these notes and present them in any given quantity at any time to the Government?

Mr. FAIRCHILD. Yes.

Mr. FOWLER. Then do you not think those wanting gold would largely provide themselves through the use of these notes?

Mr. FAIRCHILD. No; I do not think they would. I think that when anybody wanted gold he would make people pay their debts. If it was a bank that he had a deposit in, he would draw on that deposit. That would be payment of that debt, and he would get whatever that bank paid him or chose to pay him. Under our system, if that was in

operation, it would pay him gold if he wanted gold for exportation every time. If he wanted gold they would not give him greenbacks, and they would not give him silver or anything else, but would give him gold.

The CHAIRMAN. Do they not do that to-day?

Mr. FAIRCHILD. No; they give him greenbacks very often.

Mr. FOWLER. Mr. Fairchild, if there was a pressure on and the banks were nursing their gold reserves, and they should get hold of these notes, would they not then do what you say they now do—give these or greenbacks instead of gold?

Mr. FAIRCHILD. Of course, if they had to give gold, they would use the things in their possession that called for gold, and you can not get away from the position that if the banks issue notes payable in gold, they have to redeem those notes in gold, and there is no getting away from that. There is no way that you can regulate this gold by any legerdemain. There is no need for considering it, in my judgment. It will take care of itself.

Mr. FOWLER. But have you not said, and others of your commission said, that the city banks would issue little or no currency under your bill?

Mr. FAIRCHILD. I believe the city banks would issue more than they do now, but of course, not so much as the country banks, because the customers of the city banks do not call for notes.

Mr. FOWLER. You have also said, have you not, that the currency would be issued by the country banks almost entirely?

Mr. FAIRCHILD. I think a very large percentage of it would be issued by the country banks as now.

Mr. FOWLER. Then under a pressure, the burden of supplying the gold would fall on the country banks, would it not?

Mr. FAIRCHILD. I do not think it would.

Mr. FOWLER. Do you not think it ought to fall directly on the great commercial centers of the country?

Mr. FAIRCHILD. No; I think the burden would fall on anyone who owed, and you can not help it. You can not put the burden on the great city banks, or the country banks, or anything else, and the burden on the country banks for gold through their notes will be a very small thing. The relations of the country banks with the city banks would be probably far more in the way of loans to them (the country banks) and things of that kind, discounts and accommodations, than would come through the collection of debts. The bank note is not the thing that will draw the gold, or have the great call upon it in this question of exportation of gold. It is the deposits in those banks. Of course, when you come to the last resort, everybody who owes gold has got to pay it; but you will find that all things balance themselves.

Mr. FOWLER. Do you not think that the result of equalizing the burdens over the entire field and bringing the greatest demand on the center, where it ought to be, would be better conserved by decentralizing the currency and having redemption districts than by having it all tend to New York?

Mr. FAIRCHILD. It would all tend to New York. You can not help bank currency tending to New York to a considerable extent. You can not help it as long as New York is the financial center of the country. People are going to be transmitting funds there, and will do it in the most convenient way, and if bank notes are most convenient, they will transmit bank notes. So, to-day, bank notes come to New York under a perfectly natural condition, and I do not believe by any device of

legislation you can cure that, or ought to attempt to cure it. I believe you will only make disturbance.

Mr. FOWLER. What does the present annual redemption of bank notes amount to?

Mr. FAIRCHILD. We had it here the other day.

Mr. FOWLER. \$70,000,000.

CURRENT REDEMPTION.

Do you not think that credit currency would be returned more frequently to the bank of issue than silver currency?

Mr. FAIRCHILD. No.

Mr. FOWLER. You do not think it ought to go around any more rapidly?

Mr. FAIRCHILD. I do not think that is a thing we have anything to do with.

Mr. FOWLER. Mr. Fairchild, what is the average life of a Scotch note?

Mr. FAIRCHILD. Two or three months, I think.

Mr. FOWLER. Nine days, is it not?

Mr. FAIRCHILD. I do not know.

Mr. FOWLER. What was the life of a note under the Suffolk system?

Mr. FAIRCHILD. I do not know. I do not remember. We have had all that stated here.

Mr. FOWLER. About ten times a year, was it not, or 36 days?

Mr. FAIRCHILD. I think so.

Mr. FOWLER. That would make thirty-six days. Have you studied the Imperial Bank system on this question?

Mr. FAIRCHILD. I know the redemptions are more frequent than with us.

Mr. FOWLER. I have a chart here showing the movement of currency in the Imperial system. It starts with one hundred, and I think their limit is less than one hundred millions, and it varies from 30 to about 35 per cent. On that basis they would have a life of about ninety days. Do you not think the counterpart of a sound system of credit currency is the constant return of those notes to the bank of issue for their payment and reissue or retirement?

Mr. FAIRCHILD. I do. I think every facility ought to be offered that would return them when anybody wanted them.

Mr. FOWLER. The present national and State bank capital amounts to about \$800,000,000. If credit currency to this amount should be circulated, and the circulation should be as often as the Imperial notes, there would be \$3,000,000,000 go into the United States Treasury every year, would there not?

Mr. FAIRCHILD. I should suppose so.

Mr. FOWLER. So you think it is advisable to have such redemptions going through the United States Treasury instead of in the localities where the notes are created?

Mr. FAIRCHILD. I do not think there is any objection to that.

Mr. FOWLER. It is not your opinion, then, that this vast amount of currency issued by the banks, leaving the territory where it originates and going through the United States, would tend to congest currency in New York, where the redemption would take place, and denude the territory from which the notes come?

Mr. FAIRCHILD. I think not. We had in our minds that there should be the greatest possible amount of redemption, and after consulting the Treasury people, it seemed to us at the outset, after the redemp-

tion took place at the Treasury and at the subtreasuries, that it probably would be sufficient. I thought that it would be well to have redemptions at the banks in various cities, but on consultation with the Treasury people it did not seem quite practicable to start that at the outset; it seemed that it would be too much of a change from the habit that the people now had, and would not be accepted.

Another question considered was whether we would permit banks to pay out any bank notes but their own over their own counters. I myself was in favor of not permitting them to pay out any notes but their own. Then that would tend to a most rapid redemption of anything else.

Mr. FOWLER. It is a question whether that would not be too rapid.

Mr. Fairchild having concluded his statement, upon motion of Mr. Brosius, a vote of thanks was unanimously extended to him for his courtesy in coming before the committee and for the information which he had furnished the committee.

[Thereupon, at 1.10 p. m., the committee took a recess until 2 p. m.]

The committee having reassembled, Hon. Lyman J. Gage, Secretary of the Treasury, appeared before the committee.]

STATEMENT OF HON. LYMAN J. GAGE, SECRETARY OF THE TREASURY—Continued.

The CHAIRMAN. A question was raised as to the form of your statement, Mr. Secretary, as to the exchange of bonds, and if you would like to make the form any clearer we would be pleased to have you do so.

Secretary GAGE. I think I can make the answer sufficiently explicit. I made a reply to a question that was asked some time since in which I said that the dollars and cents paid out by a government for principal and interest in the exchange of $2\frac{1}{4}$ per cent bonds proposed for the 4 per cent bonds outstanding are exactly the same, meaning by this that there would be neither loss nor gain to the Government in the exchange, nor to the holders of the 4 per cent bonds.

The chairman calls my attention to the fact that there might be a little variation, and so for the literal accuracy of my statement perhaps I should amend it by saying now that the exchange of the proposed bonds for the present bonds, as shown in the table which is herewith submitted, is made upon such a basis that there will be neither gain nor loss on either side, time, interest, and length of periods of bonds being taken into the question. It is true that the aggregate amount of interest and principal paid will not be the same in every case, but allowance being made for the difference in annual interest charges, interest on interest, and the time the bonds have to run, there will be no choice between the two, the exchange being considered as an investment operation.

PARITY OF THE METALS.

Mr. NEWLANDS. Mr. Secretary, if we should retire all the silver which is now in circulation and double the amount of silver in the silver dollar, so that in place of about \$500,000,000 of silver we would have \$250,000,000 only, each dollar composed of double the weight in silver, would that be a short way of restoring the parity?

Secretary GAGE. Of restoring?

Mr. NEWLANDS. Not of restoring, but creating a parity between gold and silver?

Secretary GAGE. Yes; it would go far toward it.

Mr. NEWLANDS. What would be the result of doing that?

Secretary GAGE. Well, I think you would want a little something else. Perhaps, with such a state of affairs, this kind of an influence that you look to here would be sufficient, or the Government guaranty, but some influence that would give substantial surety that if fluctuation continued the parity would still be protected.

Mr. NEWLANDS. You think some protection would have to be provided against a further fall in the market value of silver?

Secretary GAGE. I think so.

Mr. NEWLANDS. What effect would it have upon the general business of the country if \$500,000,000 of silver were retired gradually, and \$250,000,000 of double the weight in metal were put in circulation in their place?

Secretary GAGE. I think that, in connection with some system of banking, where paper currency could be made to fill up the difference, there would be no harm done.

Mr. NEWLANDS. In your judgment it would be necessary to provide some kind of currency to make up the difference in the number of dollars?

Secretary GAGE. I think it would be necessary.

Mr. NEWLANDS. And you think that could be accomplished through a bank currency?

Secretary GAGE. I do.

Mr. NEWLANDS. Do you think that this question, as to the relative quantities of silver and gold, the relative production of silver and gold, and the probabilities in the future of increased production of silver as compared with gold, has been sufficiently studied by any organized body of men in this country during the last three or four years?

Secretary GAGE. No; I do not think those questions have been studied as much as they ought to have been.

Mr. NEWLANDS. Do you not think that it would be a wise thing to have a commission that would look into that question, contemporaneously at least, with a commission to look into the question of increased banking facilities?

Secretary GAGE. I think that might be advisable; but what we burn for most is that in the waiting process and looking around process we do not tumble off the platform on which we are now conducting all our commercial and industrial operations on to another platform lower down which involves, in my belief and in the belief of so many people, and is certainly, therefore, worthy of some consideration—a fall which would produce a shock that would break the financial bones of all those now engaged in great commercial business.

Mr. NEWLANDS. Mr. Secretary, I find but few men among all the intelligent advocates of silver or bimetallism who are not as anxious as you are to maintain the parity between the two metals. They differ as to the methods. They insist that its increased use will insure values, so that the market value of the silver dollar will be equal to the coinage value. You fear that can not be accomplished, owing to the increased production and diminished use of silver by the civilized world. Now, the common purpose being to establish a parity, and while it is impossible, apparently, to settle the questions that are now disturbing us as to a maintenance of that parity by a redemption in gold, would it not be a wise thing to have some organized body of intelligent men who would consider this other question contemporaneously as to how the compar-

ative market value with coinage value can be asserted and maintained; whether at the existing ratio or a lower ratio.

Secretary GAGE. I think so; yes, sir.

Mr. NEWLANDS. Would that not solve a good many difficulties that are distracting us all now? Might not such a body of men—patriotic men—shape some solution that would avoid all the distractions of the present discussion?

Secretary GAGE. I think it is worth trying. I think it is a most important thing to give in the meantime assurance, as I have said, that while we wait we do not go to ruin.

[Thereupon, the hearing having been concluded, the committee adjourned.]

FIRST DAY, JANUARY 12, 1898.

[In order that Mr. Fairchild's statement may be presented in continuity, statements of other gentlemen are made to follow the close of Mr. Fairchild's remarks on January 20.

Mr. Fairchild suspended his statement to allow Mr. Bush to be heard.]

STATEMENT OF MR. T. G. BUSH, OF ALABAMA, A MEMBER OF THE MONETARY COMMISSION.

Mr. Bush said:

Mr. Chairman and gentlemen of the committee, in accordance with the suggestion of the chairman, I would state first that my home is in Anniston, Ala. If it would give me any better standing before the committee I would first say that I am a farmer, and to some others I would say that I am a merchant, and, to suit others, that I am a manufacturer, and to others—if it would not create a too great prejudice in their minds—that I am manager of a railroad. But I hope I can commend myself by saying that the portion of the State in which I live borders close on the district of my friend from Tennessee, Mr. Cox. I had hoped to relieve you of the burden, Mr. Chairman, of any remarks from me on this subject. I tried most earnestly by wire to get our distinguished chairman to excuse me, but he declined to do so.

I would not undertake, of course, to go into any detailed discussion of this subject from the beginning. If you desire me to do so, I would say that the gentlemen who have preceded me have spoken my speech on that subject, although I do not say that I prepared their remarks for them.

I accepted service on this so-called Monetary Commission because I was persuaded to believe that I could in some sense do a public duty and might be of some benefit to the people among whom it is my pleasure to live.

I was convinced by the origin of the convention which created this commission that some action looking toward remedying the troubles and evils that attend our finances is a necessity—a public necessity—and I am convinced that it is a popular movement, because I have seen it stated that each member of this committee has a bill of his own on this subject. Consequently I feel that the commission is not alone in pressing this on the public mind, and if I mistake not there is a growing sentiment which demands that something shall be done.

I was a little discouraged when I first came to Washington to attend the first meeting of the commission, because I heard that a distinguished gentleman of large experience in Congress and in public matters had said that the average Congressman dislikes very much to tackle a new subject; that he prefers for safety to thrash out the old ones. But I

am convinced that there has been a reformation in that respect, and I am convinced that there is a growing sentiment, even in Congress, that something should be done.

Now, considering the fact that there are so many bills to be considered or to be presented to this committee on this subject, while the spirit of arbitration and compromise is abroad in the land, my suggestion would be to abandon all others and accept that on the line proposed by the commission.

In all seriousness, gentlemen, I believe this—that the time has come when the constituents of the members of Congress, and of this Congress particularly, should rise to that plane of patriotism that is above the mere matter of consideration of party interest, and the looking forward to the next election and the mailing of seeds and so on, and give their attention honestly and fairly to what seems to be the popular need. I am no prophet and I am no politician, but I do not hesitate to prophesy this, that it will not be to the credit and the future benefit of a political party in this Congress, which has the power to pass measures to give relief to the financial interests of this country, to fail to use its utmost ability to do so, and I will also say it will not be to the credit of any party that is in the minority to put every kind of obstacle in the way of such legislation.

I believe that there is a need; and why do I say that? It is because of the mere fact of distrust, the timidity of capital. Some one has wisely said that there is but one thing more timid than \$1,000,000, and that is \$2,000,000. I say it is this widespread distrust that has retarded our restoration to prosperity and retarded the development of our country, industrially and otherwise. A very prominent business man in New York, a friend of mine, a man of very large means, said to me not long since, "I am very sorry that you have had anything to do with that commission." I said, "Why?" He said, "You do not want to be bothered with it, and besides that there is no necessity of doing anything."

Now, that has been one of the troubles. It is going to be one of the very troubles in this Congress, and if you will pardon me for speaking plainly in this matter there are people to-day, there are men who are such great advocates of the tariff that they want to convince the world, perhaps, that there was nothing the matter with the country except the tariff, and that if you put on a tariff high enough that will settle everything. I do not propose to discuss that, but whatever good it is going to do, it is not going to satisfy the country on this measure, just because we are living under a system of finance that is unsafe, and we are treading constantly upon a volcano.

This policy of being indisposed to cover the roof of the house when the sun is shining is all wrong in theory and in practice, and you gentlemen that are to-day voting for appropriations for battle ships and armored cruisers and torpedo boats are simply in time of peace preparing for war, or adopting measures to avert war by being strong enough to protect the honor and interests of this country. Consequently, it is proper, it is right, that now, when matters are quiet, when the sea is placid, that we should arrange matters to enable us to weather the storm.

It is useless to discuss the question of standard further than what has been said about it, simply because it is a law to-day and will be a law until a majority of the people of this country choose to make it otherwise. The difficulty I find in discussing this subject with business men and others is that they are disposed to look at the question of

banking as entirely different from any other business proposition. In other words, they are not willing to apply to banking business principles that obtain in every other transaction of life.

Consequently, they set it off as something by itself, to be dealt with separately, to be suspicious of, and we have finally come to the position where a great many people think that the bankers are a class of men who are conspiring against the interests of those who have not money, and that they are trying to ruin the country. Now, let me say, before I go further on that, that I am not a banker, and I do not own any bank stock, and right now, while I am up here, at least, I do not want to borrow any money from any bank; so what I shall say in regard to that is simply from a plain business standpoint.

FUNCTIONS OF GOVERNMENT.

Mr. Fairchild stated a proposition which has long been fixed in my mind, and that is that the people have a wrong conception of the object of the Government in authorizing banks and issuing charters. I find down in my own State that there is the same opposition to the creation of corporations of one kind and another as there is to banks. They think that the bank is a little the worst, because the banks have a little more money, perhaps. The truth and essence of the matter is simply this, that the people of this country, assembled in their respective legislatures of the various States, would not make laws solely for the benefit of the capitalists and of the men who have money to invest; but on the contrary, the result is that by these laws men of small means can get together and combine their capital and compete with the man who has large means.

As a matter of fact, barring perhaps some of the large banks in large cities, the banks are made up of stockholders of small means, and these banks are to-day far more essential and more necessary for the men who want to do business than for the men who establish the banks, because a man who has capital to establish a bank can use it otherwise and still make as much profit, but the man of small means, who wants to merchandise or engage in manufacturing, must have the benefit of this accumulated capital, which can only be done by the organization of banks.

BANKING NOT PROFITABLE.

As a matter of fact, banking business has not been profitable. I believe that is one of the reasons why I do not want any interest in banks just now. The national banks in this country, particularly in the last few years, barring a few large banks with immense deposits, have proven unprofitable. They have barely made both ends meet. I know in my own country banks have not made any money, with an exception only here and there, and the statistics show, which the Secretary of the Treasury presented in his report, and which the Comptroller of the Currency shows, that out of the 5,000 national banks organized under the present laws about 1,400 of them have gone out of business, between three and four hundred of them into involuntary liquidation, and the others into voluntary liquidation. Consequently, it can not be very profitable to the men engaged in the banking business.

There is another thing that our friends and the people you represent forget, and that is that this is a free country, and if it is such a profitable thing to go into the banking business, then everybody has that privilege who has any money.

NEEDS OF THE SOUTHERN STATES.

I want to state to you more particularly the needs of that section of the country that I have the honor to represent on this commission, and I suppose my own State is a fair criterion of most of the other Southern States as to their needs, and also some of the Western States. Our people may think I am conceited when I say that they do not need every time what they want. Now, I think I know what they need, and I think I know what they want; but I think their method of arriving at it is not the best method of accomplishing it and obtaining it. The people in my section of the country think there is not enough money there. I think so, too, and I would like to see a great deal more. But I have never yet been able to see how something could be obtained for nothing. I do believe that is one of our troubles, and that can be remedied, and I will suggest in all modesty that this bill in a great degree provides for them in that respect. I believe there is a lack of proper distribution of capital in this country, and I believe that the facilities for banking are not such as to offer inducements to men to take their means out of other investments and in the smaller communities enter into the banking business.

We want to do this. I want to see the business of banking encouraged, but on a safe basis. I want to see it made more attractive to capital, so that more capital will be invested and so that there will be more profit in that business. For that reason I not only joined my colleagues in advocating that the minimum capitalization be \$25,000 in towns of 4,000 inhabitants and less, but I joined them in the advocacy of branch banks, under proper restrictions and under the direction of the Secretary of the Treasury and the Comptroller of the Currency, in order that the communities that are not able to organize banks themselves might receive these advantages through branch banks, and that there might be more competition where banks exist.

If the people in my section of the country and other sections where they need them can enjoy these facilities, and can obtain loans commensurate with the proper security they can offer, I believe they will be satisfied, and I believe it will solve this question as to a demand for more money.

SUFFICIENT MONEY IN EXISTENCE.

Understand, please, that I discriminate between the proportion of capital invested in banks and the amount of money or currency in circulation. I do not believe that there is a man living to-day who can say positively that there is not enough money to do the business of this country and enough money in existence in free circulation, amounting, according to the Secretary's report, on the 1st of December to about \$1,700,000,000. Am I not right?

Secretary GAGE. Substantially.

Mr. BUSH. I say no one can say that, because, if you will pardon me, I think when we make comparisons you will find from the Secretary's report, made about the 30th of December, that he reported something over \$23 per capita in circulation, and if you will refer back to a date that sometimes has been mentioned in public discussions, 1873, if you please, you will find it was a fraction over \$18—a date when, in the minds of some of our friends, our calamities began. As I say, it is not, as far as I can judge from the demands of the people in the South, more circulating mediums in the country that is desired, but better distribution of capital and an equalization of interest. That is what they want; that is what they need.

As to the features of this report that propose to meet these demands, I can hardly say any more than has been said, because I believe, like the gentlemen who have preceded me, that when you thoroughly study and investigate the subject, you will find that we must come to the position some day when we must abandon banking on the indebtedness of our Government. We might be willing to tread in the ways of other countries that are in a measure similarly situated and feel safe in this. There is no transaction that you will have among each other, or that any man in this country will have, where he is disposed to demand hardly one fourth of the security that this system furnishes the note holder.

I do not believe and I did not believe, as my colleague did not believe, that it was safe or prudent or best to provide a measure in this bill for the protection of the depositor. I think to go into that would estrange banks and keep them from entering heartily into this plan.

INDIFFERENCE OF NEW YORK BANKERS.

In my interviews with those who conduct some of the larger banks in New York, which I have had frequently from time to time since this matter has been under discussion, I find they are very indifferent about this matter, because they are doing business to-day upon a deposit currency, and they care nothing at all about the facilities or the privileges of issuing notes under present conditions.

I remember that two or three months ago I stepped into the Bank of New York, the president of which I know well, and I said to him, "You have \$2,000,000 of capital in this bank?" "Yes," said he. "And you have got about \$10,000,000 of deposits?" "Yes," said he. I said, "What are your note issues?" He said, "\$45,000." "Why," said I, "no more?" "Well," said he, "that is all they require me to have to-day. We do not want any bank-note circulation."

I stepped over across the street to see another friend of mine, the president of the Mechanics' National Bank, a very large bank, as you know. I knew his capital and deposits, and I said, "How many notes have you out?" "Not one," said he. "How is that? The law compels you to have out notes." "Oh, no," he replied, "the law compels me to put up bonds. I have the bonds, but no notes." "Why not?" I asked him. He said he didn't want them; that he did not have use for them. "They would be piling in on me every morning to be redeemed," said he.

COUNTRY BANKS NEED NOTE-ISSUING FACILITIES.

I mention this for the reason that it is a common thing for the people in what we call the country districts, or the sections where the country banks are located, to be prejudiced against the larger banks, believing that they are controlling this whole matter.

Mr. Fairchild called your attention to the small per cent of notes out under the present law that are issued by the banks in the larger communities. I say that the necessity for this improved liberal system of banking is really for the country bank, because that bank has not the deposits of currency to operate on, and it must have more liberal provisions that will help those communities in which those banks are situated.

I noticed in the Secretary's annual report, or some other statement, that he called attention to the fact that the South alone requires in the busy season, when cotton is moving, the movement of about \$13,000,000

from the Northern banks to the South to move the cotton crop. Not only does the interest on that have to be paid by the banks—and the banks charge their customers more if it costs more than if they furnished it themselves—but there are express charges and expenses necessary to be incurred in the movement.

CONDITIONS IN THE WEST.

It is the same way with the banks in the West in moving the grain, corresponding to the movement of the cotton crop. With better facilities given them to furnish a medium of exchange to their own communities, they would be relieved of that burden. And so I plead for them. I plead for the people who need the help, and I plead for the people who, for some reason, feel they are being wronged and do not know just what the matter is. That, gentlemen, keeps up this political excitement; that keeps up this disturbance; that keeps up this feeling of distrust, and it is keeping back the development of our industrial and commercial interests.

Mr. JOHNSON. And also keeping up the demand for the free coinage of silver at the ratio of 16 to 1?

THE MASSACHUSETTS OF THE SOUTH.

Mr. BUSH. Of course it does. In the country where I live, in the principal sections of Alabama—and if the chairman had not come in I would have said that Alabama is the most prosperous and progressive State in the Union. I will not say it in his presence, because he might think I was a little cheeky in it—

Mr. JOHNSON. You might speak of Alabama as the Massachusetts of the South.

Mr. BUSH. Yes. I am not here to advertise Alabama. It is already advertised sufficiently, because it produces iron cheaper than anywhere else in the world, and there were shipped in the past 18 months to Italy, Germany, Japan, and other countries about 300,000 tons of iron. We do not need any tariff on that part of it. But we are trying to develop that State both agriculturally and industrially. The interest that the people feel is suffering most, and the largest, is our agricultural interest. It supersedes the other, although the other is very large. Along the district represented by our distinguished friend from Tennessee, southern-middle Tennessee and northern Alabama especially, the industrial development and possibilities are marvelous, and those industrial developments are being retarded because of the timidity of capital. Whether they should go faster, whether it is best or not, I do not know, but it is having that effect, and so we do want something to remove this trouble, to remove this distrust.

I do not plead for something applicable to my section of the country which is not good for others. I would not be so narrow as that, to advocate any doctrine that was not good for the whole, but a sound system of finance, an unmistakable and well defined measure of value; a proper protection thrown about the note holders that may hold the notes of these banks is essential to every nook and corner of this country that wants to prosper. And so without this principle, as broad as this land, we can not prosper. Our very lifeblood is in a sound system of finance. That, in my judgment, should come first. The other things will naturally follow.

CONGRESS SHOULD ACT.

I know the difficulties that attend legislation of this kind. I know that there are different sections which feel that their interests are different; I know that there are men who have decided views on this subject, and perhaps are not willing to subordinate them to the views of others. But I do believe that if this present Congress fails to give some relief—and I will take back what I said, and say that you are not obliged to take this bill, although you can not give very much relief until you at least take the main principles of this bill, for it does not so much matter about the details if the principles are sound—that if Congress fails to give some relief of this kind you simply will be the means of retarding the progress of this country; you will be the means of continuing revolutions and disturbances that ought not to exist.

I do not say that I am altogether nonpartisan. I have my views about things and my political opinions, but it is hard in these days to tell which side everybody is on. I know this, that there is a principle in politics that I have not been able to exactly take in, and that is, to always despise what your political opponents commend and approve. That is not common sense and sound judgment, and that kind of course is not to the interest of the country. Now, if I wanted to make the Democrats abandon a plan, I would put the Republicans on that side, or vice versa, because they will not stand on the same platform. That is all right; think as you may on subjects that are strictly political. We are very much afraid sometimes of imitating other countries, and if you say anything about what England has done you are called an Anglo-maniac, and you belong to that class over there who are robbing and ruining the world, and people couple such charges with "Wall street wreckers," and such nonsense as that. But there is one thing, gentlemen, that the English people have found out long ago, and that we ought to have found out by this time, and that is to put its financial questions and its economic questions above party, and get them sound, and stand on them, and then fight political battles on other subjects, but not on those subjects.

CONTENTION FOR FREE-SILVER COINAGE DUE TO MISINFORMATION.

I digress that much from what I have been saying because I, as a business man, and not as a politician, am pleading for the business interests of this country. I am not very particular about whether this party or that party carries its views on most questions, but I do not want to witness again what I have witnessed in my own country. My people, a majority of them, perhaps, do not agree with me about this matter of finance. That is, they do not agree with me as to the best methods of obtaining what we want. They have been induced to believe, or many of them have been so induced, that our only salvation is in giving them the unlimited coinage of silver at 16 to 1. I do not fall out with them about that. I attribute it to misinformation in many instances and to political leaders in some cases. I do not say the political leaders who teach them are dishonest, but I think they are in error. I am opposed to violent changes; I have opposed violent changes in our tariff laws, where business interests have been built up on them for a number of years; just so I am opposed to violent changes in financial questions, to which it would be so difficult to at once adjust ourselves without serious losses.

Just for that reason I advocate a gradual process from the present

system of requiring a deposit of bonds as security for the general resources of the banks as the basis of the issue of its notes. If I had it left to me, with the confidence I have in the principles of that kind of banking, I would change it to-morrow. But everybody does not think as I do, and therefore they would become alarmed, become disturbed. I am not willing to hazard the interests of so many people holding bonds of the Government by making the change so sudden. That would throw a large amount of bonds on the market and it might discredit or cause decline in the securities of our Government.

The CHAIRMAN. How can it throw bonds on the market?

Mr. BUSH. Because if we required no bonds at all for collateral the large number of bonds now being held by banks would be for sale.

The CHAIRMAN. Why? If they can get their currency for nothing, how would that make them sell the bonds?

Mr. BUSH. It is a question of the use of their capital. They might and they might not.

The CHAIRMAN. If the banks got \$100,000 currency and \$100,000 in bonds, and had the privilege of issuing that currency for nothing, how does that affect the question of its bonds? It is a matter of choice.

Mr. BUSH. Yes; it is a matter of choice.

The CHAIRMAN. They would not sacrifice their bonds, would they?

Mr. BUSH. I think not; possibly not; but it would be possible for the result I have described to obtain.

The CHAIRMAN. How?

Mr. BUSH. For the reason I have stated, that there might be a very large number who would want to convert their bonds into money.

The CHAIRMAN. For what purpose—to loan?

Mr. BUSH. Yes, if it was to their interest to loan.

The CHAIRMAN. And they could get more currency if they could issue up to par for their capital and let their bonds alone than they are now getting with their bonds.

Mr. BUSH. That would be true with the present low rate of interest. With that rate of interest they could retain their bonds, but I am talking about providing against the possibility.

GRADUAL RETIREMENT OF GOVERNMENT NOTES.

The same principle obtains with reference to the gradual retirement of the Government notes. Now, whatever may be the views of people in our country, they generally obtain, I think, in other sections; they believe that the present condition of our Government notes is a menace to the business interest of the country, and yet people will turn right around and speak of them as something sacred, something that must not be touched. Some people almost fall down and worship the notes, as much as Aaron did the golden calf. It is just the idea of getting used to the thing. It is a sentiment, nothing more and nothing less. And as to those greenbacks, those United States notes and Treasury notes, which should have been retired—by this gradual process it may not come in ten years—after they shall have been retired the people who have been worshipping them will care nothing more about them.

Mr. JOHNSON. They will claim in less than five years after the bill passes that they are the very ones who advocated their retirement.

Mr. BUSH. Certainly they will, and consequently it will not affect them at all.

Mr. MITCHELL. Do you consider making the greenback practically a gold certificate robs it of its virtue? That statement was made by a

gentleman from the South the other day, and that is why I ask you the question.

Mr. BUSH. Redeeming it in gold?

Mr. MITCHELL. Yes.

Mr. BUSH. I thought that there was where the virtue lay.

- Mr. MITCHELL. He is a member of Congress, and I think he needs some education on that line.

Mr. BUSH. There is one point about that which is human nature. I see your disposition, perhaps, gentlemen, to draw out the witnesses; you ask a good many hypothetical questions. You can destroy any system of any kind hypothetically, because you can imagine things that will never take place, and you can lay down premises that are false and not true. Human nature is the same as it always has been; and when we were discussing the retirement of those greenbacks we concluded that there would be difficulty in getting them in. The holders would be like the Frenchman: "If you have got it, I don't want it; and if you haven't got it, I do want it."

Mr. COX. In regard to the greenback question, which is attracting so much attention, and the retiring of the greenbacks, and all that about which we have heard so much: Put all these notes in the same class and call them greenbacks—Treasury notes and the others. They are obligations of the Government; they are the Government's notes payable on demand. They are presented to the Treasurer of the United States. And here is the Secretary of the Treasury and an ex-Secretary of the Treasury of the United States, and they both assume, and we will assume that, and I make it a point, that they regard it their duty under the law to redeem them in gold. Now, then, who has lost anything by that transaction?

Mr. BUSH. By the redemption in gold?

Mr. COX. Yes, sir.

Mr. BUSH. Until you redeem to the extent where you reduce the gold reserve down to a point where the country becomes alarmed lest the Government will not be able to maintain its credit, nobody has lost anything.

Mr. COX. The Treasury redeems to-day in gold and it pays out to-morrow on the obligations of the Government. Is the Treasury hurt?

Mr. BUSH. No, sir.

Mr. COX. Has any injury resulted to anybody?

Mr. BUSH. Not that far.

Mr. COX. Where does the harm come in?

Mr. BUSH. We have seen the harm, Mr. Cox, in the past, and we have seen the harm when we have seen that reserve reduced down to less than \$50,000,000 and when the people of this country believed the Government would not be able to maintain its credit, and that was supposed to destroy credit generally.

Mr. COX. As a matter of fact, when those notes were redeemed in gold by Mr. Carlisle and the bonds were issued, was not the greenback almost entirely used to pay the obligations of the Government?

Mr. BUSH. Yes, sir.

Mr. COX. They are simply, then, borrowing money to pay the obligations of the Government.

Mr. BUSH. Yes, sir. But of course there are conditions at present by which a certain amount of those greenbacks can be retained in the Treasury, but not so long as the Government requirements are such as to necessitate their being paid out. If you want to lessen the strin-

gency and the causes of disturbance, you must make this Government live within its income, and when you have done that you lessen the danger, but do not entirely remove the cause, because the same things that have happened can happen again. I do not know but one way for a man to live within his income, and that is to spend less or else make more. It seems to me it would be a wise thing for somebody to consider that question.

AMOUNT OF BANK CAPITAL IN SOUTHERN STATES.

Mr. HILL. I notice from the statements of the bank capital of the various States that Alabama has \$7.37 per capita?

Mr. BUSH. Yes. That is not all national-bank notes; is it?

Mr. HILL. Substantially all. About \$6—\$6.25. Florida, alongside of you, has \$16.63, and Louisiana \$29.61. Mr. Cox's State, Tennessee, has \$19.31. Please tell us what, in your judgment, is the cause of that difference.

Mr. BUSH. The cause of the difference in Louisiana is that it has a very large center of business, New Orleans, in which so much capital is concentrated, and because they have a larger capital; and Florida is, of course, a State sparsely populated, and money is there in the larger centers. There are some large interests, at Jacksonville and elsewhere, that create a greater average of money per capita.

Mr. HILL. Then, it is the difference in the character of the community?

Mr. BUSH. I think so; yes, sir.

Mr. HILL. Please tell me what there is in this bill that will induce banks to go into these communities where they are now so scarce, without the character of the community being changed.

Mr. BUSH. Simply the greater profit that will be promised to the banker under more liberal laws.

Mr. HILL. Has the commission figured the profit on banking under this bill as proposed?

Mr. BUSH. Yes, sir.

Mr. HILL. Are they prepared to submit it?

Mr. BUSH. Yes, sir. I have forgotten just what it was. I think Mr. Fries, of North Carolina, can answer that question better than I can. I have forgotten just what it was, but that was all figured out, and we had it in view that the change must be made so as to make banking more profitable, to make more inducements for men to go into banking in these sections of the country.

Mr. HILL. The reason I ask the question is, because, as I have figured it, the difference in the profits to the banker between the present system and this proposed system is very trifling indeed.

Mr. BUSH. I think you will find, on close figuring, that it is a good deal.

Mr. HILL. Then, do you think there would be more banks established because the system would be more profitable?

Mr. BUSH. Yes, sir.

Mr. HILL. Do you think the amount of business that would be brought to the banks would be changed unless the character of the community was changed?

Mr. BUSH. I do not know so much about that. What we need there is this: Here is a man who goes and buys 100 head of beef cattle. He wants to feed them for three or four months. He comes to a local bank, and the man being reliable and having this collateral, he can make paper that will be acceptable. And so in the growing of crops a man can go

to his neighbor, a few months before his cotton is to be marketed, and with his endorsement he can get help. If he does not want to sell his cotton, the price not being satisfactory, there is more money to be loaned on the same when ready for market.

Mr. HILL. More credit, you mean?

Mr. BUSH. Yes; I should have said so.

Mr. HILL. That is the point I want to get at. You spoke a moment ago about the banker in New York who declined to issue circulation on account of the responsibility in redemption.

Mr. BUSH. That responsibility and the fact that he could not keep his own bills out long enough to do him any good.

Mr. HILL. Do you believe it possible in Alabama, which now maintains less of banking capital than any other State in the Union, in a strictly agricultural community like that outside of Birmingham and Anniston, for instance, to maintain a bank of issue, exchanging demand obligations for long-time obligations such as would be necessary in an agricultural community, and maintain redemption?

Mr. BUSH. Well, I think it would, sir. I think that those bills would gradually get far enough away from home not to immediately be presented for payment. In the first place, the communities there will have payments to make at a distance, perhaps, in other part of the State or in other States, and those bills will gradually get out, perhaps not rapidly at first, but in the course of time, I think, they would get out and relieve the people very much.

Mr. HILL. Then the cry for more money would not be stopped, because the bills would be sent to a distance?

Mr. BUSH. They would get the benefit of them. The men would get the bills to pay their debts with. I believe that in my own State the State banks would become national banks under a law like this, and that would give great relief, and of course through the entire country would add very much to the increase of current bank notes.

Mr. MCCLARY. My friend, Mr. Hill, asks whether, the practice remaining the same in Alabama, there would not be more need for capital. Would not the practice itself change?

Mr. BUSH. I think it would.

Mr. MCCLARY. It is the practice now for a farmer to run a bill all through the year. Would not that practice change?

Mr. BUSH. I think it would.

CURRENT REDEMPTION.

Mr. CAPRON. You say this bill would promote a proper distribution throughout the country of the currency issues, and it occurred to me to ask you if you thought a centralizing of redemption in the large commercial cities of the country would promote that as well as it would be promoted under some other systems, with which, no doubt, you are familiar, of having redemption cities in localities distributed throughout the country, as proposed by some of the other bills.

Mr. BUSH. We discussed that, and we found if you name a small bank, with only one, two, or three hundred thousand dollars capital, and a dozen places where they would have to provide for their redemption, it would consume nearly all their capital, and therefore that was not wise—that is, if they have to provide the fund. The present law requires the bank to redeem its notes over its counters, and they are also redeemed at Washington; and this bill provides they shall be redeemed at any

of the subtreasuries, and in that way the redemption, it seems to me, would be rapid enough.

Mr. CAPRON. The only trouble I foresaw in that was that the credit notes might not have the tendency to go back home, and so get into circulation and give the country community the privileges which they would have by redemption nearer home.

Mr. BUSH. It was not the purpose of this commission to suggest any plan that would retard redemption, because one of the safeties of the state is quick redemption.

Mr. FOWLER. If the notes came back into the community whence they emanated, they would be regarded as good, would they not?

Mr. BUSH. Yes, sir.

Mr. FOWLER. If they were, the people in the immediate vicinity would no more present the notes than a man would try to check for money he did not want?

Mr. BUSH. No.

Mr. FOWLER. That is the point with regard to whether the notes would be retired simply because they return to the place of issue.

Mr. BUSH. I do not think they would.

Mr. FOWLER. Now, coming to the point to which Mr. Capron called your attention, as to whether these notes should not be redeemed at redemption cities whose character was determined by natural commerce, for instance, taking your own State as an illustration, would it not be far better for all of the banks that naturally clear at Birmingham to pay their own notes first over their own counters and at the city where they kept their current account?

Mr. BUSH. Yes, sir.

Mr. FOWLER. So that if any of the notes of Alabama should go to Tennessee, the Tennessee people would send them back to Alabama, and if they got to Georgia or Mississippi the tendency would be to send home the notes and keep all the notes that were created in Alabama circulating in Alabama, rather than to have the notes going away from Alabama and being redeemed in New York City, producing a congestion such as we have now?

Mr. BUSH. I think one of the channels for redemption would be through New York, from the fact that so many banks would send them to the center where they do their business. For instance, the relations of banks in Tennessee are much closer to New York, in some cases, than their relations with banks in Alabama.

Mr. FOWLER. But is not that the curse of the present situation that the money leaves the country and goes to the great centers?

Mr. BUSH. But it will come back to be redeemed over the bank counters there.

Mr. FOWLER. But the curse to-day is that the money leaves the country and congests at the center in New York. Now, ought we not to give these notes a homing tendency and decentralize the mass of the money that the people use and keep the notes as far as possible in the localities whence they emanate?

Mr. BUSH. I think so.

Mr. FOWLER. You made a remark that led me to suppose you thought if a bank was going to redeem its notes through a redemption city it possibly would have to maintain a redemption fund at four or five points. That is not true. For instance, a bank in Alabama that was keeping an account at Birmingham would only have to redeem at its own counters and at Birmingham.

Mr. BUSH. Did you make that a principal place of redemption?

Mr. FOWLER. That is all.

Mr. BUSH. Yes; you can do that.

Mr. FOWLER. You would approve that?

Mr. BUSH. Oh, yes; that seems to be practicable.

Mr. FOWLER. Do you not think that is really one of the greatest benefits that is being sought by you and all of the people that live in the country districts?

Mr. BUSH. Yes, sir; to keep the money at home as much as possible.

Mr. FOWLER. Do you not believe that kind of a system will more successfully keep the money circulating than the system of a national centralized redemption system?

Mr. BUSH. Well, I can not think that you could very well adapt it to special communities, because the relation between banks is so varied. At home, apparently, their relations are very limited indeed, and much more with banks far away with which they do business, and we discussed at one time the question of even having a section in the bill to make banks responsible first by groups for their issue, and we found that was impracticable. As to what you suggest as being desirable and what the state-bank advocates claim, that their money could not get away from home, I would say we do not want money that is not good away from home. If it wants to go, let it go. So, while I believe no political party has recently advocated the removal of the 10 per cent tax, yet there are many people who insist upon having State banks. I think that would be unfortunate, not only because it would be a retrogression, but I believe the spirit of the legislators in some States to-day in the South and West is such that they would not grant as liberal charters as to issuing notes as provided in this bill.

I am exceedingly grateful for the kind and courteous hearing that the committee has given me, and I feel a deep interest in this matter, and I think I can say this, that if you gentlemen can bring about legislation that will give the proper relief, by this bill or some other bill, some day you will be represented in statutory hall.

[Thereupon at 4 o'clock p. m. the committee adjourned until the following day, January 13, 1898, at 10.30 o'clock a. m.]

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., January 13, 1898.

SECOND DAY.

The committee met at 10.30 o'clock a. m. in the room of the Committee on Interstate and Foreign Commerce, Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Brosius, Johnson, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, Ermentrout, and Maddox.

Mr. Bush, of Alabama, continued his statement begun on the preceding day.

STATEMENT OF T. G. BUSH, OF ALABAMA, A MEMBER OF THE
MONETARY COMMISSION—Continued.

Mr. BUSH. I was going to say, Mr. Chairman, that in my own mind there was only one point under discussion that perhaps I did not make perfectly clear in my remarks yesterday—at least perfectly clear to

myself. That was with reference to some questions asked by Mr. Fowler in regard to having a comparatively near-by place for redemption, for the purpose of making the issue of these banks under this proposed bill perform a service near at home. I do not think that that is a matter of very great importance. I am satisfied that these bills that may be issued by the small banks will take their place in the communities rather slowly at first. The bankers who issue them will have, perhaps, business sagacity enough to find methods of getting them out and keeping them out. The natural inclination of the banker would be to get them away from home for awhile, and if they did so, something else would take their place, but they would have performed service as instruments of credit, at least in the beginning.

I have been an advocate of quick redemption in order to make the plan a safe one and in order to prevent bankers from taking too many chances and perhaps having a default—not having their bills paid when demanded either over their counters or at other places designated by the Government where they are to be redeemed.

I must say that I do not claim to be an expert. I have had some experience in banking, and have had a little general experience in business of different kinds, perhaps without any great success; but still I have my opinion about these things, formed from my experience and observation, and, as I said yesterday, I believe very strongly in the objects of the bill. No two men look at things exactly alike or express themselves in exactly the same manner, although they may be endeavoring to arrive at the same point. So I think it is with the other members of the commission as well as myself. I think there is no probability of this bill being adopted as a whole, but there is some hope that its main objects will find their way into such a bill as you may see fit to prepare.

I am perfectly sincere in my statement that it is my belief that the people of this country expect this committee and the members of Congress to treat the subject more seriously than they ever have in the past, owing to the exigencies of the case and the demands that have been made upon them.

With that I have nothing further to say, unless some gentleman desires to question me.

CURRENCY IN THE SOUTH.

Mr. BROSIUS. I did not have the good fortune to hear you yesterday, and I am much interested in the Southern aspect of the question, because really that section presents the most difficulty in Congress.

With the bank notes issued under the bill before us and being guaranteed as the bill contemplates, and all bank currency being of equal value in all parts of the Union, would the currency issued in your country stay with you as you desire, or would it congest in the great cities of the North, as it does now?

Mr. BUSH. I will answer that in this way. There are laws of trade and business controlling these matters that no statutory laws can overreach, and the money will flow if it is current, and there is plenty to do the business of the country, to the places where it is most needed. The trouble is not so much that this currency issued in the South may find its way in seasons of idleness to sections where it may be used to small advantage or small interest gained upon it, but it is a question of the ability of these communities to furnish the currency when it is most needed, the time when a movement of the crops takes place.

Ordinarily, in our country, at the time of the cultivation of the crops,

the cotton crop especially, which is a very long period, there is very little activity in business except in the line of credit. The farmers get from their respective merchants accommodations in the way of supplies and various other things, and there is no real use for the medium of exchange that we use ordinarily and call money. There will be a tendency, I am sure, from the effect of this bill, or something similar to provide money in times of need, and furthermore to cheapen the interest. To my mind, it is not so much the mere fact of the increase of the medium of exchange, because I believe there is enough money current in this country to-day to do the business, but it will secure a better distribution of the capital of the country seeking to be used.

It is true that there are a good many people in our country, and all over the South and the West, who are complaining because there are not facilities furnished them when they want to come in and mortgage their horse or cow, or a piece of land, or anything. Whenever they want to do that, they have a mistaken idea. In the first place, no business man, or a man who has money to deposit, would do business with a bank that lends money on security of that kind. It might make a foreclosure at any time, and the property it would take as the result of the foreclosure would be of the nature I have stated, which would not be desirable. Therefore, I think our present banking laws prohibiting the use of real estate for collateral for borrowing money are wise. Those people who seek money in that way, who want to borrow money on such property, can do so through trust companies and savings banks.

FEW SAVINGS BANKS IN THE SOUTH.

We have not in our country, I am sorry to say, savings banks to the same extent that there are in the North, particularly in New England. They will come some day, I hope, and accommodate the people in the way that they want to be accommodated. But, as a matter of fact, credit in our country and in the West has been too cheap. It has been a misfortune that people have been able to mortgage their property too much and secure assistance in that way without working out their salvation by main force, and I, for one, never wish to see any means by which it will be made easier to do it. I have pleaded with my people, begging them under no conditions, except it be a question of life and death, to mortgage their homes and their property. There will be a class that never will be satisfied with any proper banking system, because it will not give them those facilities to which they are not entitled, but I do believe that these smaller banks will be organized, and I do believe that they will be an education to our people; that they will be very helpful indeed.

You know human nature is the same all over the world. You can excite a man's pride and ambition, and there are a great many men that would like to have a little bank account who could be induced to start it if they had the opportunity. It would become a man's education, and induce those people to save and be very helpful to them indeed.

QUICK REDEMPTION.

Mr. BROSIUS. The reason I asked the question was that some prominent gentleman in the South who testified before this committee made the statement that the only way to secure an adequate supply of currency in that section of the country was to have banks issue currency

that would be at a discount away from home, and would therefore remain where it was needed. You do not agree with that, I take it?

Mr. BUSH. No, sir; I think those gentlemen in coming to Washington ought to have taken the stagecoach instead of the railroad train. That would have been more in keeping with their views.

I mean to say this, that it would be a retrogression, and I do not believe the country is prepared for it, and I do not believe our people would ever consent to it, because they do want to carry in their pockets a good dollar, no matter where they go.

Mr. FOWLER. You do not think it is necessary to have bad money in order to have good money?

Mr. BUSH. No, sir.

Mr. FOWLER. On that point of securing the highest degree of homing quality in this credit currency, would not the tendency be in a currency that was equally good everywhere and recognized everywhere—a greenback or a national bank note are practically the same, for no one looks to see which he has—would not the tendency be not only to take it from the district from which it emanated, but to keep it away from that district? I believe that we can have too much currency, as well as not enough; and, therefore, to regulate it, always keeping it in perfect harmony with the work to be done, it is highly essential that the notes shall return to the place of issue at an early time, and if the banker, perchance, still desires to use them, he again issues the same notes.

Mr. BUSH. Certainly. Of course, in having a speedy redemption I do not mean to say that it must be too much so, just for the reason that the banks in New York would say, "I do not want to issue this currency, because it will come back to me—because it will come back to my counters to-morrow," unless they have the means of getting it out further; and yet, as I say, while I believe eventually the provision for the issue of this currency is going to be most beneficial, I lay more stress upon the other point as to the benefits to be derived by the smaller banks, and the currency will remain at home long enough to do the proper service.

INTEREST ON DEPOSITS.

I want to say this, as regards preventing national banks paying interest on the deposits of other national banks. It was suggested to my mind, because the president of a prominent bank in New York urged me that it be done. When we came to consider it we might say, "Yes, Congress may pass a law to that effect, that if a banker has a certain amount of money he does not want to use he wants to put it somewhere and earn something on it. If he is not permitted to deposit it in a bank he will invest it for the time being in 2½ or 3 per cent bonds, so as to make that small interest, awaiting a better opportunity to use the money. It is not reasonable to suppose that a hanker in the South will send his money on to New York to get an interest of 2 per cent, and sometimes only 1 per cent. And so it is impossible to regulate a matter of that kind by law. All the great money centers, London and Paris, and others, pay interest on deposits, and I do not see how you can prevent it. It is difficult to control by statutory law.

Mr. FOWLER. In regard to the advantages of banks in those sections of the country where you do not want money all the year round, but in certain months of the year you need a great deal, do you not think it would serve the interests of the people better if they should establish

branches in those localities, and not go to the expense of organizing complete outfits?

Mr. BUSH. I think so; I advocate that, and I think branches may bring about competition and reduce interest. Of course it is an expense to run banks.

[At this point Hon. Charles S. Fairchild resumed his statement begun on the preceding day. His remarks will be found complete under one title.

Hon. Robert S. Taylor was preceded, before recess, on January 13, by Mr. Fairchild, whose remarks are presented in continuity elsewhere.

After recess, the committee having reassembled, the chairman introduced to the committee Hon. Robert S. Taylor, of Indiana.]

STATEMENT OF HON. ROBERT S. TAYLOR, OF INDIANA, A MEMBER OF THE MONETARY COMMISSION.

Mr. TAYLOR said: Mr. Chairman and gentlemen of the committee, I am from Fort Wayne, Ind., and a lawyer by profession.

After what has been said, I should feel that there was a manifest impropriety in my continuing any further the discussion of this bill if it were not for the sole fact, with which we are familiar, that twelve jurors frequently agree upon a verdict for twelve different reasons, and in order to get the full apprehension of the correctness of the verdict, it may be worth while to hear from the jurors.

We all see these things through our own eyes. I have come to look upon them not with the eyes of an expert, but with the eyes of an ordinary citizen, not having in his lifetime any active connection with banking or finance.

THE GOLD STANDARD.

The bill before you, Mr. Chairman, proceeds upon the assumption that by the laws of the United States, and the habits of its people, gold is the standard. It proposes a plan of currency reform based upon that assumption, the first requisite of which shall be the distinct definition and sure maintenance of the standard.

In setting about its work the commission was instructed by those by whom it was appointed to prepare the very best plan it could think of, without reference to the question of its probable passage into a law; to formulate what they would conceive to be the most desirable system of currency which could be devised, having reference not only to considerations of ideal perfection, but to its adaptability to conditions existing in this country.

The first section of the bill contains a definition of the standard, and I think it will not be amiss if I add something to what has been said on that subject.

There is one circumstance which had weight in the minds of the members of the commission which has not been alluded to so far. By the law of 1873 it is provided that one gold coin of the United States shall be a \$1 piece, which at the standard weight of 25.8 grains shall be the unit of value, and it then goes on to provide that there shall also be coined quarter-eagles, half-eagles, and eagles, giving the weight of each in grains.

By the act of September 26, 1890, it was provided "The coinage of the three dollar gold piece, the one dollar gold piece, and the five-cent nickel are hereby prohibited." And that is all it says.

Congress has therefore prohibited the coinage of the coin which by the law of 1873 was declared to be the unit of value. We therefore have a currency system in which there is no coin representing the unit of value and no declaration of what the unit of value shall be, except by reference to that coin.

By the act of 1878 it is provided that silver dollars of a given weight and fineness shall be coined, and shall be legal tender. There is thus left open to imaginable dispute the question as to what a dollar is in the United States. Is it 412 grains of standard silver, or is it 25.8 grains of standard gold? This does not, to my mind, present any actual confusion. I think the law is perfectly clear, and for two reasons. In the first place, it is an easy arithmetical calculation to ascertain what a dollar in gold is, because the quarter eagles and half eagles and eagles are defined as consisting or being equivalent to so many dollars, and the weight of each of those is declared in the statute. It is therefore easy to ascertain how many grains of gold shall constitute a dollar. In the next place, the gold dollars which continue to circulate are still gold dollars under the law of 1873, and they are still the unit of value, and we would have the unit and a standard, by the law of 1873, as long as even one of them continued to exist. If they were all gone but one, that one, by the law of 1873, would continue to be the unit and standard of value in the United States.

One may say, further, that it is not at all necessary to the monetary system that there shall be any coin representing the unit of value. There are systems in which there is no coin representing the unit of value. There is no pound sterling in England, and yet that is the standard of value. But taking the three statutes together, the law is in a confused and awkward condition. That is the most you can say. It is not uncertain to my mind; I think it is clear beyond any question; but yet it is not creditable to the Government to have its laws in the shape they are in. I have heard in the last five years controversies over matters very much less plausible than a controversy would be as to what is now our legal standard under the law. It was from these considerations that the suggestion was made which is embodied in the first section of the bill.

After that the first important provision of the bill is intended to clear up an existing ambiguity in the law as to the obligations of the United States. These obligations are expressed simply in dollars, or in the word "coin;" that is, the obligations payable in money. By the terms of the law gold coins and silver dollars are alike legal tender. By another part of the law the Government has declared its policy to maintain the parity of the silver dollars and gold coin. By one part of the law, therefore, the disbursing officers of the United States are expressly authorized to pay its obligations in silver dollars. By so paying them they would be within the very letter of the law. By another part of the law the Government has declared its general policy to be to maintain the parity between the silver dollars and its gold coins. Of course that parity would be immediately destroyed if the Government should attempt to force its silver dollars upon its creditors against their will. So the question arises, What is, under these two contradictory provisions of law, the legal duty of the disbursing officers of the Government? And upon that the people of the United States differ.

There are many citizens who hold that it is the duty of the Secretary of the Treasury to take advantage of the law, by which he may legally pay the obligations of the Government in silver. On the other hand, it has been regarded by the executive department of the Government as its duty, as its first duty, its paramount duty, to adhere to the general policy declared in the other part of the statute. It is impossible for the citizens or for the world to know what will be the continued view of the executive officers of the Government on that subject. The President and the Secretary of the Treasury could direct the sub-treasurer at New York to-night to pay greenbacks in silver dollars, and by giving that direction they would be within the letter of the law.

Now, it is not possible that there can be a stable monetary system resting upon a standard in respect to which there are these contradictory provisions of law. The standard rests in such a case not upon the law, but upon the anticipated conduct of the executive department of the Government. The whole duty of maintaining the standard is laid on the shoulders of one man. We can form such judgment as we may of what he will do, and upon that alone confidence must rest.

Now, it was the belief of the commission that this is by all odds the most serious defect of our present monetary system. The commission thought that this possible threatened degradation of the standard was far above other things the most serious element of the situation and that the first duty of Congress was to fortify the standard. That is to be done by correcting this ambiguous condition of the law, and that can be done by simply declaring in the law that all the obligations of the United States, those past and those hereafter to be contracted, shall be payable in gold. That, then, makes gold the standard, by the law, of the obligations of the Government.

GOLD REDEMPTION.

The next principal feature of the bill is one which has for its primary object the same general end, which is to fortify the standard beyond all possibility of doubt. The suggestion in those provisions is that there shall be created in the Treasury Department a division charged with the express duty of issuing and redeeming notes; that there shall be placed in that division an ample reserve fund in gold; that that fund shall be maintained from surplus revenue when such revenue exists, and when that does not exist, to maintain it by the issue and sale of bonds.

By our present law the current expenses of the Government and the payment of its general obligations all come out of the same general fund. If that fund is sufficient to pay those expenses and leave enough to care for the demand obligations, all is well; if not, there then immediately arises a doubt as to whether those demand obligations will be paid or not. The Government is, therefore, in the situation of a merchant who is also a banker, issuing notes, and who would make no provision whatever for the payment of his circulation, except such as might happen to remain in his cash drawer at the end of his day's business. It is, therefore, in view of the uncertainties that attend those things, quite true to say that whether the Government will be able to redeem its demand obligations promptly or not is a matter of accident, depending upon the accidents of the crops and times and exports and imports.

Inasmuch as by our system all the money of the country hangs upon the Government itself, inasmuch as every paper dollar we have is worth just as much as the Government will give us for it and no more—

The CHAIRMAN. Will it disturb you for me to make a suggestion there?

Mr. TAYLOR. No, sir.

The CHAIRMAN. Will you not tell us how that condition of dependence upon the transitory conditions of the country is to be obviated while the Government is to be responsible for meeting those conditions?

Mr. TAYLOR. I will do that now. That question is entirely pertinent. By the provisions of this bill there is, as I said, to be created in the Treasury a division to have charge of this business. To that division there is to be transferred a gold reserve. That reserve is to be maintained by surplus revenue if such revenue exists, and if not, the Secretary of the Treasury is authorized and directed to maintain it by the sale of bonds.

The CHAIRMAN. He is under the present law; is he not?

Mr. TAYLOR. That is exactly the same as under the present law, with this exception. Under the present law the current gold reserve must be used for the payment of expenses when there are no other funds. Under the present law the Secretary of the Treasury could hardly excuse himself from paying the current expenses of the Government, when he had \$100,000,000 in the Treasury, by saying, "I must keep that to redeem greenbacks with."

The CHAIRMAN. He sells bonds, does he not?

Mr. TAYLOR. He does now.

The CHAIRMAN. He would then?

Mr. TAYLOR. Yes.

The CHAIRMAN. What is the difference?

Mr. TAYLOR. There is this difference. Under the present law the President and the Secretary of the Treasury may sell bonds, and perhaps they would. Their doing so would depend upon their views of the case, upon their views of their duty under the circumstances. We have had, within a few years past, a man who might have been President, by a casualty, who would not have done it, in my opinion.

The CHAIRMAN. Then it changes the word "may" in the law to the word "shall."

Mr. TAYLOR. Yes, sir; practically.

The CHAIRMAN. What do you get in that as regards the relief of the Treasury?

Mr. TAYLOR. One other provision found in this bill is important, and that is that it shall be provided that the Secretary of the Treasury shall have authority, in case of casual deficit of revenue, to make it up by temporary Treasury debentures.

So, taking all these together, we have set apart on the one hand a fund for the redemption of Government obligations, with an injunction upon the Secretary that he shall maintain it and power given to him by which he can maintain it. On the other hand, we have the current revenues of the Government, with power in his hands to provide for casual deficiencies by temporary debentures.

The CHAIRMAN. Then the only difference is, you give him a chance to issue different kinds of bonds and make it "shall" instead of "may"?

Mr. TAYLOR. It may be so stated.

The CHAIRMAN. That has nothing to do with the division of the funds in the Treasury. They can divide those now, and everybody concedes that they ought to be kept separate; but what do you gain by having the law tie those funds up so the Secretary can not use them? Would it not be better to leave it discretionary with him, as it is now? In other words, you are circumscribing his powers rather than enlarging them.

Mr. TAYLOR. I think in that respect his powers ought to be circumscribed. I think it ought to be his duty under the law, which he could not evade without disobedience of the law, to keep the funds for the redemption of the Government demand obligations sacred for that purpose, and he ought to have the power in his hands by which he can maintain it, and he ought to be enjoined by the law that he shall maintain it. The difference between this proposed law and the one we have now is not very great in some respects. In fact, it can be so stated as to appear to be no difference at all. I remember an incident that happened in the debates on religion at the time of the Reformation, when one man said to another, "The difference between your church, which is the Episcopal Church, and mine, which is the Catholic Church, is a paper partition," to which the answer was: "That is true, but the whole Bible is printed on it."

Now, the difference between this proposed scheme and the present one, when stated in words, may be small, but the sense of security which it would afford—the sense of confidence in the minds of the people that nothing is going to happen, that no casual deficit in the revenue is going to imperil by a feather weight the performance of the Government's obligations—is a good deal. It is a whole bible to be sure of that thing.

The CHAIRMAN. One thing further: My position—and I want you to understand it, so as to meet it—is that the passage of your bill or the bill of the Secretary of the Treasury, will complicate the condition tenfold more than it now is, by taking away the liberty which the Secretary now has. You gentlemen should know that that is my point, so that you can meet it.

Mr. TAYLOR. I want to say that I am not here to antagonize anything.

The CHAIRMAN. Yes, we are here for that. We are here to commend what we do approve of and to antagonize what we do not approve of. I have no respect for anybody's feelings, on this committee or anywhere else, when it comes to a matter of truth and right and proper procedure and protecting the Treasury, and no man can have and do his duty, any more than a lawyer can have respect for the feelings of others and do his duty in trying a case.

Mr. TAYLOR. I think I concur with you there, but I think my position is one which puts upon me no further duty than to commend this measure.

The CHAIRMAN. And to defend it?

Mr. TAYLOR. And to defend it. I do not feel called upon to institute comparisons or to make attacks.

RETIRING THE GREENBACKS.

Now, Mr. Chairman, this part of this bill, so much as we have heretofore spoken of, can be enacted into law by itself, striking out all the rest. In my estimation, the enactment of this much, and no more, as law would immediately put this country upon a foundation of confidence which would alone go very far to remedy the evils which exist. The bill goes further, however, and provides a plan for the gradual retirement of the Government notes as circulating money. Of course this opens up a very broad question, which I will not think of discussing at large upon its merits at this time. It is, in my estimation, simply this: Are the demand notes of the Government, to be used by the people as money, a form of money good for the people and good for the Government? That question ought to be considered, discussed, and decided upon its merits.

It seems to me we have come to a time in the history of this country when we ought to decide that question. We have been using the Government's notes as money for thirty-five years. That is long enough for us to judge whether they do constitute a desirable form of money for use among the people—good for the Government and good for the people. We have had experience enough. We have been talking about it for a quarter of a century. We have had disasters enough. It seems to me that the time has come now for the American people to close that debate and settle upon something. There are a great many arguments properly entering into the question which are very interesting to every intelligent citizen.

I could occupy much of your time in stating them to you as they lie in my mind, but I will content myself with what seems to be the broadest and most fundamental statements that attach to the question. The first of these is, that a money consisting of the notes of the Government is irresistibly misleading to the people that use it. Very few men in any community stop to think very closely about the nature of the money they handle. They take what they receive if it will go again, and they are satisfied. If the money which they receive comes to them with the impress of Government authority, if it carries the seal of the Government, if it is circulating from year to year without redemption, if it is legal tender for debts, men come to look at it as money in and of itself. They cease to regard it as a paper promise to pay money, and the idea grows up in them that it is made and given to them by the supreme authority of the Government, and their patriotism and loyalty to the Government lead them to accept these obligations payable in money as actual money in itself.

Nothing which you can say or do, no promotion of economic doctrines, nothing you can put in the papers, nothing you can bring to the minds and thoughts of the people, can correct that misleading tendency which the use of this money from year to year gives. The people after awhile lose sight of the necessity of a standard. To the minds of a large part of the American people to-day the standard of value is not a thing, but a word. It is the word "dollar." The word "dollar," as a word, is, in the minds of the people of the United States, a large part of them, to-day the only standard that they have any idea of. In order that the people may understand the true meaning of money, it must be kept before their minds as a continuing, persistent fact that the piece of paper which serves the purpose of money is only somebody's promise to pay money, and when the people forget that, when that thought goes out of their minds, they are incapable of forming any sound judgment on any money question.

I believe that by the use of this governmental currency the Government of the United States has so misled its citizens, has educated them in such erroneous notions of money, that they are to-day scarcely competent to decide the question at all, and the reason of the incompetency lies very largely in the miseducating influence of the greenback currency.

I may go one step further. As long as this sort of money remains in circulation and forms the foundation of all other kinds of money, the Government is inextricably entangled in the business affairs of the people; and that ought not to be. The world has progressed now to that point at which the social and business life of the country can be divorced from the Government, if necessary, and still go.

With a sound system of currency and finance the government of any civilized people could be wiped out, and business still go on, men con-

tinue to maintain their titles to their property; debts continue to be collected and enforced, and business to go on until a new government could be established in the place of the old one. But if the money of the country is all so entangled with the existence and functions of the government that when the government goes down society goes down to chaos, the calamity is inconceivable. It does not need to go to that extent. The government itself does not need to go down to produce disaster if the government itself is so entangled with the monetary system of the country.

FEAR OF CHANGE MUST BE REMOVED.

In a country like ours there is no institution that is not open to suggestions and proposals of change, and a currency issued by the Government which is subject to increase or diminution or change at the will of Congress, which means the will of the people, is a subject of political discussion and political interest and political agitation which the people will never let alone. Ever since we have had this currency it has been continually the subject of political agitation. Not a week has passed when it has not been a matter of discussion in the papers and generally throughout the country or when it has not been a subject of strife between parties. As long as that is so we never in the world can get it out of the field of political consideration and controversy, and until we do it we never can reach a settled foundation. No man can tell what will be the course of public opinion two or three years from now. The dispositions of the people are affected by a thousand incidents; are affected by good times, by bad times, by prejudice and alarms. We never know, we never can know, when we have got to the end or the bottom of controversies of this kind.

Mr. COX. Your proposition, or your bill, is to take the matter away from politics, or away from political discussion, as far as you can?

Mr. TAYLOR. Yes, sir. I think that is a very important object.

Mr. COX. That is exceedingly important, in your mind?

Mr. TAYLOR. It is.

Mr. COX. Can you suggest to this committee how any law of Congress that is subject to repeal by the next Congress, no difference what it is, can be so framed as to take the question out of discussion, once you take away from the people the right to vote upon the proposals?

Mr. TAYLOR. It is not possible to enact any law which can not be repealed, of course. It is not possible in a country like ours to settle anything, no matter what, beyond the possibility of further discussion and further action by the people; but it is of the utmost importance that some things shall be settled, so that the public shall be relieved from the apprehension of discussion and controversy. A great many things have been so settled, absolutely. The common-school system of the United States rests upon law. It is entirely within the possibility and the power of the people to repeal the whole thing, but nobody fears that they will. They could. There is nothing to prevent the organization of a party to attack the school system, but we are not afraid of that. There is nothing in the world to prevent the organization of a party to attack the postal system, but we do not fear that. And if we should make a law to-day establishing a currency system which was a wise one, which was a good one, which the whole country would see was a good one, which would prove by its operation that it was a good one, then, while the possibility of discussion would not be removed, the probability would be removed, and we would have confidence in the perpetuity of the conditions.

Mr. HILL. That means that if your proposition could be carried

into execution and become a law, you would make it so good that there is no probability of anybody trying to make it better?

Mr. TAYLOR. That is it. If I did not believe that this bill contains just that, I would not be here to advocate it. I believe if this became a law and could run ten years, there would be no more probability of its being changed, no more probability of its being overthrown, than there is a probability of the public-school system being overthrown.

Mr. COX. I wish we could reach such perfection as that.

Mr. TAYLOR. I am trying to show you the way.

The present condition of our currency is one of intense strain, and will continue to be, so long as present conditions continue. While the Government is able and disposed to redeem its obligations on demand in gold, we shall have actually in business a gold standard. The moment that the United States shall be unwilling or unable to pay its notes in gold, and willing only to pay them in silver, we shall have a silver standard. Now, if those two standards of value were essentially close together, the difficulty would not be so serious. But in the progress of things, silver and gold have gone far apart, and a gold standard means one thing and a silver standard means another thing far removed from that—less than half of that in its actual value; and while this condition of things goes along the business of this country rests in uncertainty from day to day, from month to month, from year to year, as to what is going to be. A contract made to-day to be performed four years from now may be performable in gold, or it may be performable in silver. I say that business can not subsist successfully in a condition of uncertainty like that. That uncertainty must be removed.

The CHAIRMAN. In what direction is public sentiment going to-day? How is it tending among the plain people of the country who ultimately decide all these questions and who settle the elections?

Mr. TAYLOR. That is a proposition on which every man may have his own opinion.

The CHAIRMAN. Very well. I do not ask you for any opinion but your own.

Mr. TAYLOR. And on which I suppose every man's opinion is liable to be colored somewhat by his wishes. That is all I know about it.

The CHAIRMAN. But you have an opinion?

Mr. TAYLOR. Yes, sir. I do not, however, regard it as valuable.

The CHAIRMAN. We would like to have it. We regard it as of value, and your colleagues thought it was valuable when they sent you here.

Mr. TAYLOR. I speak only of the portion of the country in which I live, the central West; and I may say that I have been somewhat surprised myself to find such a steady growth in favor of the gold standard as I have found.

Mr. JOHNSON. That is particularly the case in Indiana, and has been my observation and experience.

EFFECT OF THE PROPOSED LEGISLATION AS TO SILVER.

The CHAIRMAN. One other question. Do you think it good statesmanship to throw this question into the House in a banking bill, which, as you say, has no connection with the question at all, when public opinion is growing in that direction, inasmuch as it will provoke discussion, which, in our experience here, will last for several months, and probably for years—because the bill, as you have stated here, will immediately and at once practically eliminate silver as a money metal and as a legal tender—

Mr. TAYLOR. I beg your pardon; I have not stated that.

The CHAIRMAN. Well, your predecessor, Mr. Fairchild, did.

Mr. TAYLOR. I did not so understand it.

The CHAIRMAN. That is what I understood. I understand that he expects that the use of silver among the people in paying their small obligations will so take up the silver that it can not be used by banks in redeeming money as a money metal, that it will be relegated to the position of a currency, and a currency only, and perform the functions of a currency, not of money as we understand money when we speak of it with reference to specie of any kind. That was exactly his position, if I was able to understand it.

Mr. TAYLOR. I would not enter upon that question. I have always had trouble enough to define my own position. I should not attempt to define that of somebody else.

The CHAIRMAN. That was his view.

Mr. FAIRCHILD. Are you quoting me?

The CHAIRMAN. No, sir; I was epitomizing your statement.

Mr. TAYLOR. I believe it is recognized in the court, Mr. Chairman, that the court is not responsible for the reporter's synopsis in a decision. I think it might not be amiss, then, if I should state right here my view of what the effect on the silver circulation would be if this bill should become a law. The silver dollar has been reduced by the fall in the value of silver to the situation, really, of a token coin. It circulates at the value of a dollar in gold, when its real value is far less.

Mr. COX. As compared with gold?

Mr. TAYLOR. As compared with gold. The silver question at large is in the air all over the world. The fall of silver has put all the civilized nations in the same box, to a certain extent. They are all carrying large volumes of silver, at a current value far exceeding its real value. What the final solution of that question will be, I do not know, and I do not think anybody is wise enough now to know. What the final solution of it ought to be, no one is wise enough to know. We have in circulation now \$350,000,000 of small bills. By small bills I mean fives, twos, and ones. This quantity of small bills is in circulation, and answers the demands of the business world. We have also in circulation \$60,000,000 in silver in metal—the silver dollars themselves—making a total of \$414,000,000 of money, in denominations of fives, twos, and ones, and this quantity of small money has been found by the practical operation of the law of trade to be about what is required by the business of the people at this time, and we may assume, I take it, that for the future not less than that, and probably an increasing amount as the population increases, will be required to meet the conveniences of the people. We have something over \$450,000,000 in silver dollars. If we put that entire amount of silver into the form of five-dollar, two-dollar, and one-dollar bills, certificates—

The CHAIRMAN. Why not pay it right out of the Treasury and let the people have it?

Mr. TAYLOR. The people will not have it.

The CHAIRMAN. How do you know?

Mr. TAYLOR. I have what seems to me to be the best reason for believing so; because the Government has been trying for eleven years to get them to take it, and without success. I looked at the sub-Treasury's books in New York not long ago—the week before last—and I found for the year ending June 30, 1897, the Government had sent out at its own cost for expressage, something over \$72,000,000 in silver.

Mr. COX. Upon the statement that is made by the Secretary of the Treasury he estimates the charges paid by the Government for sending out silver at \$70,000.

Mr. TAYLOR. I was going to mention that.

Mr. COX. But have you the figures to show how much silver was sent out at the cost of \$70,000?

Mr. TAYLOR. I can tell you exactly.

Mr. COX. Let us have that, then, please.

Mr. TAYLOR. I saw it on the book.

Mr. COX. Some books are good authority.

Mr. TAYLOR. I will state it. I do not pretend to be authority, myself.

Mr. COX. If you paid \$70,000 to put silver out——

Mr. TAYLOR. I did not say that.

Mr. COX. The Secretary says that.

Mr. TAYLOR. I am going to state what I believe to be the fact. That is this: That for the year ending June 30, 1897, the silver sent away from the subtreasuries of the United States was seventy-two million and some odd thousand dollars. The amount sent back during the same time was seventy-three million and some odd thousand dollars. So at the end of the year there was \$700,000 in silver money less in circulation than there was at the beginning, although the Government during the year had sent out \$72,000,000; and of that \$72,000,000, \$41,000,000 had been sent by express and \$81,000 had been paid for expressage, and all that came back. The people paid their own expressage on the money that was sent back.

POPULAR USE OF COIN MONEY.

Mr. FOWLER. If the certificates—the ones, twos, and fives—had been correspondingly canceled, or if they were all canceled, and the silver was out at the end of a year, do you not think the people would be as well satisfied as they are now with the certificates? With California before you as an illustration, with Mr. Garnett, who lives there, refusing to sign the report recommending this bill, because he uses silver, and with the practices of Germany and France and other countries before you, do you not think that at the end of a year the people would be just as well satisfied with the silver as they would be now with the small certificates?

Mr. TAYLOR. I do not think so. They would take it if they had to.

Mr. MCCLARY. Would not that fact—the presence of the gold and silver in the hands of the people from day to day—be the best kind of an education in the other direction that you spoke of awhile ago? Would it not be the best kind of an education as to what money really is?

Mr. TAYLOR. Well, it would be a good object lesson, but I do not think I am prepared to say it would be the best one.

The CHAIRMAN. Would not that be the only way to find out what the people want and to get their opinion of any currency system?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. Do you know of any other Government in the world that coins money and then itself issues paper representatives of it direct?

Mr. TAYLOR. I do not know that I ever heard of one.

The CHAIRMAN. Does not that contradict the whole theory of coinage?

Mr. TAYLOR. I think it does. I think it is an inconsistency in our system.

Mr. NEWLANDS. You do not think that this feeling on the part of our people is the result, if I may use your term, of miseducation during the past twenty-five or thirty years? Have they not become accustomed to the use of paper money, and is it not a mere habit that can be revolu-

tionized? I find, for instance, that I change my habits with reference to money twice a year. I go to the Pacific Coast in the summer, and there get the metal money. At first I do not like the metallic money out there, but then I get accustomed to it. Then I come East; and when I get into Nebraska they hand me over the dirty paper money, and I don't like that; I object to that. In time, however, I get to like the paper best, and then I go back again to the Pacific Coast and go through the same process again. Now, you do not think that this is a mere matter of miseducation; that the people during the war and during the "shinplaster" times prior to the war got into the habit of using the paper representatives of money instead of the real money, and that the true thing to do is to turn them back to the methods that are now employed in Europe and countries that are upon a sound financial basis, having the actual metal itself in circulation, and distinguishing between coin on the one hand and mere paper or uncovered currency on the other hand?

Mr. TAYLOR. I want to say, in answer to Mr. Newlands, that I consider that it is almost altogether a matter of habit. There is no doubt about that. But the habits of people about things of that kind are exceedingly tenacious sometimes. The habits of money, and habits of dress, and habits of all kinds, when they once take root are difficult to eradicate, and I think the people of the United States would resent very vigorously the withdrawal of all paper money under \$10. I do not think they would be satisfied with that change. I think men would be beaten for Congress on that issue if it were forced.

Mr. CAPRON. Since you speak of habits of the people in regard to their money, and dress, and those things, I would ask if it has not occurred to you that the habits of using money might possibly be changed if the fashion should emanate from some head center like Paris or Washington; that as the people form their habits in regard to dress and other things from the fashion set at those centers, so might they not form their habits in regard to money?

Mr. TAYLOR. That would have its effect.

Mr. FOWLER. This question is an interesting one. Mr. Newlands has been speaking about the use of gold and silver money in the West, and having to change his habit when he comes East. I would like to ask him which kind of money he prefers?

Mr. NEWLANDS. I much prefer the metal money, both gold and silver.

Mr. TAYLOR. There is a question entering into this which I think will be found to have considerable force. A large share of the business of the country, especially the small purchases, is done by women. A woman holds her pocketbook in her hand. She does not know how to use a pocket. And we must remember that fact in deciding what is the best form of money for common use among the people. There is a certain adaptation between human strength and money, and when money gets to the point at which its avoirdupois becomes a burden there is an objection, and if there were no paper money, no bills below \$10, and if the women when they did their shopping had to carry silver dollars they would raise a row about it.

Mr. HILL. How about the five-dollar gold piece?

Mr. TAYLOR. That would help it out.

Mr. FOWLER. That is the golden bridge to cross over on?

Mr. TAYLOR. Certainly.

The CHAIRMAN. Is it not a fact that a very large body of our people, children especially, who handle a large part of the money in taking it to stores, and the very large laboring population of the South, and the

ordinary laboring men, can carry coin in their pockets with greater safety and less liability of loss than they can carry paper, and is it not also true that the paper often gets wet and crumples up and the germs of disease get in it and everything of that kind? So, would it not be of great sanitary benefit and economic benefit in every way in protecting the people from loss to have all money, say under \$5, in coin?

Mr. TAYLOR. There is great force in that, Mr. Chairman, and I think our people would be better off if that could be brought about. I think they would be better off if they used more coin money. I may be telling tales out of school, but I will say that when this was under discussion in the commission I made a motion that the smallest paper bill should be \$3 as a compromise. I think the people would stand that, without much complaint. I believe if you would go to \$5 there would be a great deal of complaint, but that if you say \$3 the people would not seriously complain, and perhaps in that way you could accustom them to the use of coin, and eventually they would allow \$5 to be the lowest denomination of paper money.

Mr. FOWLER. Suppose you had \$8 in your pocket, and in one case you had it in a one-dollar bill, a two-dollar bill, and a five-dollar bill, making \$8; or you had a five-dollar gold piece, and the rest in silver. Now, after a moment's reflection, don't you think the latter would be more cleanly and preferable as a matter of habit? Do you not think you would prefer to have \$8—\$5 in gold, and say a couple of dollars in silver in your pocket; would you not prefer that?

Mr. TAYLOR. I would.

The CHAIRMAN. You have only given him \$7. I hope you will keep that arithmetic straight.

NO DANGER IN THE SILVER DOLLARS.

Mr. TAYLOR. That is a little side issue. I commenced to give you a statement of what I understood to be the provisions of this bill in regard to silver, and that we have about enough silver in existence to supply the wants of the country for small money, and we could have it in the form of bills or in the form of silver dollars. That would not be material. Now, I consider that the supply of small money which is actually needed for daily use, when it was once scattered over the country, would be next to impossible to get back in any considerable amount. If any man tried to gather it up to take it to the Treasury to get gold for it he would find a force pulling the other way which it would be hard to resist. The first instinct of a bank is to be prepared to supply the wants of its customers, and one of the first things that a bank looks out for is that it shall have enough small money to answer the demands of its customers. If the country had \$350,000,000 in small silver certificates and \$60,000,000 in silver it would be needed so much for daily use that you could not get it away from the people. Therefore, in my opinion, there would be no possible danger of any run on the Treasury by means of the silver dollars.

Mr. McCLEARY. I would like to ask if your plan contemplates the storing of the silver dollars themselves in the Treasury and the use of the silver certificates themselves as a currency?

Mr. TAYLOR. Yes, sir.

Mr. McCLEARY. Is there not this objection to that plan: Would not people who find the personal lack of money at a particular moment say, "Look there, the Government has stored up in its vaults millions of

dollars; ought it not to put it into circulation?"—forgetting that it would be in circulation in the form of certificates?

Mr. TAYLOR. I do not think that is an objection.

Mr. MCCLARY. I find that question meeting me every little while.

Mr. NEWLANDS. Do you not think that there is the same impression throughout the world, that the piling up of \$350,000,000 or more of silver dollars in the United States Treasury constitutes a menace to the world itself? Do they not lose sight of the fact that these silver dollars are in actual circulation among the people through their paper representatives in the shape of silver certificates, and regard it as a massing of silver which may at some time, by some kind of legislation, be thrown upon the markets of the world, just as the German silver was, after the Franco-Prussian war; and do you not think that the accumulation of silver in the Treasury of the United States has had something to do with the alarm that has been created throughout Europe, not only as to the prevailing large stock of silver, but the possible increased production in the future, having some effect on its market price?

Mr. TAYLOR. No; I have not thought of it in that way.

Mr. NEWLANDS. Do you not think that in this country there are a great many people who do not know that the silver is still in circulation through the silver certificates?

Mr. TAYLOR. I can not say that I have found any such people among my acquaintances.

Mr. NEWLANDS. I have met with a great many myself, and abroad I found that that was quite a general impression, that we had a great stock of silver here and that it was not utilized.

Mr. TAYLOR. That might be so. I can not say.

The CHAIRMAN. Whether that is so or not, not one man in a thousand, when he receives a bill, stops to see whether it is a bank note or a silver certificate, or what it is. Unless his attention is especially called to it, he does not notice it. There is no distinction; he thinks that it is all national bank money.

Mr. TAYLOR. Very few people notice the difference, or think of the difference.

The CHAIRMAN. And they do not know that this coin is collateral for these silver certificates?

Mr. TAYLOR. Very few people think of that. That is one of the consequences of the greenback circulation. It has accustomed the people to take pieces of paper with pictures on them. That is all they notice.

The CHAIRMAN. Is it, then, your opinion that the general feeling of affection which the people seem to have for the greenbacks is because they want the paper money?

Mr. TAYLOR. No, not that merely; not because they want paper money merely. I think the affection of the people for the greenbacks is a peculiar patriotic instinct. The greenback is associated in their minds with the preservation of the Union.

The CHAIRMAN. And you think the majority of the people in the ordinary way of life draw the distinction between the greenback and the bank note, and so on?

Mr. TAYLOR. Not at all.

The CHAIRMAN. That is what I meant.

Mr. TAYLOR. No; not at all. In actual transactions I think men very rarely take notice of what kind of money they are handling. It is only when you begin to talk to them on the subject of greenbacks that they notice the difference.

GRADUAL RETIREMENT OF THE GREENBACKS.

Now, Mr. Chairman, I want to say further that the plan herein proposed for the retirement of the greenbacks contemplates that it shall be very gradual, and so guarded that it can not result in any injurious contraction of the currency. By the terms of the bill as proposed, greenbacks are to be canceled to the extent of \$50,000,000, and after that the cancellation can proceed no more rapidly than bank notes are issued until the limit of five years is reached. After five years they may be canceled to the extent of one fifth of those outstanding each year, for five years longer. So, if they were all presented for payment, they could disappear in ten years. But that one half of them will disappear in ten years I do not believe. My belief is that if such provision is made by law a great deal more trouble is going to be had to get the greenbacks in than to pay them.

The CHAIRMAN. They having become gold certificates it saves the banks the trouble of storing the gold. Why should not every dollar of gold go in there and these gold certificates be out for it?

Mr. TAYLOR. I would rather have the bills come in.

The CHAIRMAN. But why would not all the gold come into the Treasury and the banks hold the greenbacks and gold certificates?

Mr. TAYLOR. I think they would do so to a large extent.

The CHAIRMAN. Then we would not get ahead. The Government would not have a cent to redeem when gold is called for unless those who desired gold had the certificates.

Mr. TAYLOR. Of course as long as any greenbacks remained outstanding the Government would have to hold itself in readiness to take care of them if they came in.

The CHAIRMAN. Then the Government is out of the business except as a storer of gold?

Mr. TAYLOR. Yes; in one sense that would be the case.

The CHAIRMAN. Who would be the next storer?

Mr. TAYLOR. When that time should come, I should think it would be necessary to take some steps to secure the redemption of the greenbacks.

NO SERIOUS CONTRACTION OF THE CURRENCY.

I was proceeding to say, or about to say, Mr. Chairman, that the sum of \$50,000,000 was named from a variety of considerations. It was considered first that the logical way to deal with the subject was to pay the notes. They are a debt. They are a debt of the Government which we must pay some time, unless it shall be determined that this sort of money shall be adopted as the permanent money of the Government, or unless the Government shall say on the one side that the United States promises to pay this note, and on the other side that it does not intend ever to pay it. If it is to be paid, the logical way to deal with it is when it is paid to put it out of existence as a paid obligation. But it was part of this plan to so guard the processes of the redemption that by no possibility could it operate to produce a serious contraction of the currency.

It was considered that the redemption might go on to the extent of \$50,000,000 without producing any injurious contraction of the currency. We thought that the present volume of money in the United States could spare \$50,000,000 without any serious contraction before any other thing came in to take its place, and that that limit was one which it would be a safe one to adopt in view of the fact that it would not

operate to produce an injurious contraction of the currency. It was considered that it ought not to go beyond that unless bank notes had come out to fill its place, and it was considered further that the knowledge of the fact that the greenbacks were to be retired to the extent of \$50,000,000 would have an encouraging effect on the banks to issue their notes. They could do it with the knowledge of the fact that the progress of redemption was going to make way for \$50,000,000 of their notes. That particular sum of \$50,000,000 was empirically selected, and there was no reason that I know of why it might not have been \$40,000,000 or \$60,000,000. Simply on general consideration, for the reasons I have stated, \$50,000,000 was selected as a sum which seemed to meet the conditions.

Of course reform which contemplates the retirement of existing greenback circulation must make some provision for money of some sort to take its place. I have no doubt at all in my own mind that the establishment of a sound monetary system in the United States and the placing of its gold standard on a foundation which will inspire confidence at home and abroad will result in a large increase of our gold circulation. I think there is no question about that. Indeed, I think we have already, as a result in part of the repulse of the free-silver attack in 1896, an increase in that direction; that there is already a visible and considerable increase in the gold circulation.

SOUND BANK CIRCULATION NEEDED.

But some provision must also be made for a paper circulation, and it ought to meet certain requisites. The system should be a national one. It seems to me that a system organized under the laws of forty-five different States would be intolerable. I can conceive of no way in the world in which such a variety of banking institutions could issue notes which would be equally current in all parts of the country. In approaching that subject, it was considered by the commission that they were preparing a plan which must be large enough to suffice for the needs of the country for fifty years to come. It seemed to us that the time was opportune for the reorganization of our currency system upon a basis which we could call permanent—as nearly permanent as men could do things of that kind. We must therefore have a banking system which would have within itself the possibility of the issue of a thousand millions of dollars of bank notes, and without a bad note among them. Such a system as that, so vast in its extent and so exacting in its requirements, can not be predicated upon the bonds of the United States. Their scarcity, their high price, and their short remaining life, make that impossible. There are no other securities in sufficient volume and value and homogeneity to make a basis of a national circulation. Such a system as we had in contemplation, therefore, must necessarily furnish its own security. It is not a question of choice. It is a question of necessity. If you are to lay a plan for a banking system upon such a scale and for such duration, you are brought face to face with the utter impossibility of predicated it upon any other security than its own assets.

CURRENCY ISSUED AGAINST BONDS.

By the provisions of this bill, a transition from the present bond-secured system to the general-asset system is to take place very gradually. It is to begin by the reduction of the present requirement to a limit of 25 per cent of the bank's capital. That sum—25 per cent—was

selected primarily because that is the amount of bonds which the smaller national banks now have. Such a bank is now required to keep bonds to that extent, whether it issues circulation or not, and all the smaller banks now have bonds enough, as I understand it, to issue circulation to that extent. That is my understanding of it. So that the system could be inaugurated without any new charge or burden upon those banks, we fixed that sum. For a deposit of bonds it is provided that a valuation shall be made each year by the Secretary of the Treasury of each series of the United States bonds, upon a basis of 3 per cent interest, and they shall be received at that valuation as security for their circulating notes. Bonds which are payable at the option of the Government, like the extended 2s, and which therefore have no ascertainable value upon an interest basis, are to be taken at 95 per cent of their market value.

Any bonds now out or hereafter to be issued bearing interest at the rate of 3 or less per cent are to be taken at par. It is required that the bank shall keep on deposit in a guaranty fund in the hands of the Treasurer of the United States a sum in gold equal to 5 per cent of its outstanding circulation. This they are to put up at once and continue for five years, so that for the first five years the circulation itself will be secured by the general assets and bonds, and at the end of five years the banks are to be entitled to begin to withdraw their bonds at the rate of 20 per cent per annum of those they have up. So, at the end of ten years, the system would pass into a system of circulation on general assets. The guaranty fund of 5 per cent is to be a common fund for the security of all the notes of all the banks. Upon the failure of any bank its notes are to be paid out of the guaranty fund, and the Government is to indemnify the fund by immediately proceeding to collect the amount out of the assets of the failed bank, upon which it is to have a first lien.

Mr. COX. Upon the failure of a bank those notes have to be paid by the Government, and then the Government protects itself out of the 5 per cent guaranty fund?

Mr. TAYLOR. No. They are paid out of the guaranty fund, and then the Government indemnifies the guaranty fund by calling on the assets of the bank and putting the necessary amount back in the fund.

Mr. PRINCE. Suppose there should not be sufficient money in the guaranty fund?

Mr. TAYLOR. Then the Comptroller would make assessments on all the banks. What would happen after the guaranty fund was exhausted, should there then be necessity for redeeming bills, is not provided for.

Mr. JOHNSON. Would it not require a considerable loss before the guaranty fund would be exhausted?

Mr. TAYLOR. An inconceivable loss.

Mr. JOHNSON. It is, then, hardly a possible contingency?

Mr. TAYLOR. It is as possible as another flood.

Mr. JOHNSON. Not a human probability?

Mr. TAYLOR. I should think not.

The CHAIRMAN. How many inhuman probabilities do you provide for in your bill?

Mr. TAYLOR. Two or three. But a man could conceive of some probabilities which are not in here. If the guaranty fund becomes impaired, if it is reduced to any degree, the Comptroller has authority to make it up by assessing the banks, and so the condition suggested could not come about unless so many banks should fail so quickly that

they would swallow the guaranty fund before the Comptroller had time to make any assessments.

Mr. McCLEARY. Such a condition never has happened?

Mr. TAYLOR. No, sir.

Mr. McCLEARY. And no such condition has ever been even approached?

Mr. TAYLOR. No, sir; according to the experience of the national-banking system for thirty-five years, a 5-per-cent guaranty fund alone, with no replenishment at all, will pay all the losses for one hundred and thirty years, according to the experience we have had.

Mr. McCLEARY. Is it not a fact that every dollar you take out of this fund depletes their loanable capital?

Mr. TAYLOR. Yes, sir.

Mr. McCLEARY. And makes it higher by that much to the people they serve?

Mr. TAYLOR. I do not quite agree to that.

Mr. McCLEARY. Then how do they make any money? Is it what they loan? Then, if you deplete the loanable fund you make interest higher?

Mr. TAYLOR. I would say that the necessity of putting up a 5 per cent guaranty fund is but little burden on the business of banking.

Mr. McCLEARY. And that means the business of the people, does it not.

Mr. TAYLOR. It does, and, so far as it would go, it would tend to throw a burden on the people in the way of interest. But by being able in that way to create an absolute security for their notes, they are attaining that end at less expense than they can attain it in any other way. It is indispensably necessary to a national banking system that every note shall be good everywhere; that no man shall be asked to look at the paper to see whether it is good or not. The notes, therefore, must rest upon a single security, and the notes of the present system do all rest on the security of the national bonds. The notes of the proposed system, so far as the holder of the notes is concerned, all rest upon one single guarantee fund in gold. Now, I do not think it is possible that any other security could be put up by the banks which would attain that end which would be as economical to them as this. Government bonds—bonds of the United States—will always be high. We can think of no condition, unless it be one of such devastation by war as that our credit would be entirely broken down, in which case the bonds of the United States would not be good security, which will not keep them high, and produce to the holder a very small return in money. Now, if the bank is called upon to choose between an investment of that kind in high-priced securities to secure its notes and putting up 5 per cent of its notes, the money is the cheaper.

Mr. JOHNSON. Therefore the money is cheapest to the people?

Mr. TAYLOR. The money is cheapest to the people and the bank.

Mr. FOWLER. You don't overlook the fact that if you take that 2 per cent bond, take \$100,000 and buy bonds and then get \$95,000 of it, it would be as economical as this is? Because you have every dollar of it within 5 per cent. I admit what you say, where our present law continues; but should the law be put upon your own basis, namely, that for a bank which now has, for instance, \$100,000 of the 1925s the Secretary of the Treasury shall find the present value at 3 per cent, which would allow the banker to-day, who held \$100,000 of those bonds, not only to have \$90,000, but to have \$130,000. How will that strike the House when we present it? That is the question. You see the

point? A banker would have \$130,000 in circulation. The point is that if he got par on that basis he has got dollar for dollar back of the bank notes, and he is getting 3 per cent for his bonds, and you have removed all tax on the circulation, and he has got just as much money to loan as before he got the bonds.

The CHAIRMAN. Is not what Mr. Fowler has said true?

Mr. TAYLOR. I am not prepared to say it is not.

Mr. FOWLER. Are you not willing to admit it is absolutely true?

Mr. TAYLOR. I admit this. I do not know much about these things, but here is the way it looks to me: If a bank is required to put up some form of bond as security for its notes, it gets whatever interest those bonds produce, much or little. If it can put out its notes on its commercial assets, it has them in place of the bonds. A bank in Indiana putting up \$100,000 for bonds on this assumed basis would be getting 3 per cent on that much of its capital. If it did not have to buy those bonds, it would invest that in commercial securities at 8 per cent, compounded every ninety days.

Mr. FOWLER. Buying the bonds does not prevent you from investing in assets.

Mr. TAYLOR. You can not do both.

Mr. FOWLER. Yes, you get your notes back. You give them \$129,000 in any kind of lawful money and before you leave town you leave your bonds there, and they give you \$130,000 of national-bank notes. So you have \$1,000 more than you brought there, to loan out?

Mr. TAYLOR. These amounts do not cut any figure. The banker who buys bonds to put out his notes locks up that much money. Call it 3 per cent. Say he gets 3 per cent on the amount he puts in, and the security on his notes therefore costs him the difference between 3 per cent and the amount he gets for that same money in commercial securities.

Mr. FOWLER. What has he lost?

Mr. TAYLOR. The difference between the interest on his bonds and the interest on the same money invested in commercial securities.

Mr. FOWLER. No.

Mr. TAYLOR. I am assuming that he gets 3 per cent on the money he puts in. Now, the man who can invest his capital in commercial securities and secure his notes by taking out 5 per cent of his money and putting it in the guaranty fund, according to my assumption, is getting a security at a less cost than the man who puts his money into low-interest bonds.

The CHAIRMAN. The principle of the present law is to take out of the bank the day it begins business all of its capital and lock it up so it can not loan it.

Mr. TAYLOR. I agree with you.

The CHAIRMAN. You propose to take one-twentieth and lock it up, and reduce the earning capacity of the capital by three-tenths of 1 per cent and then argue that that will not make interest higher. Is that your proposition?

Mr. TAYLOR. Pretty nearly. I want to add just this to what you say: The bank having done that will have \$95,000 of its capital, which it can loan at the current rate of interest.

The CHAIRMAN. It would have \$100,000 if it did not put up this sum.

Mr. TAYLOR. Yes; but if the current rate of interest is not greater than that which it would receive upon its bonds, then it has lost money by the operation.

The CHAIRMAN. That is not a reference to the bonds.

Mr. TAYLOR. In my country the current rate of interest is 8 per cent on discounts, and it seems to make a difference whether it loans its money at 8 per cent, minus 5 per cent in the guaranty fund. The bank gets its notes the same in both cases. The difference I am talking about is the cost to the bank of protecting its notes. The bank gets the same quantity of notes to lend and use in both cases. In one case, in order to protect its notes, it puts up an equivalent amount in high bonds at low interest. In the other case it has that money to use in its business and protects its notes by 5 per cent of the amount, and this 5 per cent is a deposit simply, and when the bank retires it gets that back.

What I was just saying, Mr. Chairman, simply went to the point that this form of security seems to me to be the cheapest form which the banks can adopt for the security of their circulation, and at the same time the best form for customers. We have been accustomed to think that nothing possibly could be so secure as Government bonds for banking circulation. That is because we have lived under such a system. If the Confederate government had created a national banking system at the same time we created ours, of exactly the same kind, its notes would not have been worth much after the lapse of a little while; and, on the other hand, if the Confederate government had created such a banking system as this which is proposed and it had gone on to the downfall of the Confederacy, there would have been behind the notes the assets of the people there. They would have been worth something. In the nature of things, Mr. Chairman, there is nothing so certain and secure in a civilized country as the continued existence of its people and its wealth and its business. Governments may come and go and revolutions may come and go, but the business of a country will go on.

ALL BUSINESS RESTS UPON THE LAW OF AVERAGE.

Now, one single word, Mr. Chairman, upon the other side of that question. There are the conservative men regarding this proposition from the banker's standpoint, who look upon it as objectionable. There are some bankers, men connected with great, strong banks in cities, who say of this scheme: "Why, that puts it upon us to insure the little country banks, of whose management and solvency we know nothing." It seems to me to require only a moment's reflection to see that in such a system as this the real insurance is the insurance of the great banks by the small ones. The strength of the system lies in this, that it brings into the security of the system the law of average. All trade and all civilization and everything rest upon the fact that men are honest and fairly competent—upon the average—and that any system of business which has for its foundation the average intelligence and average honesty of the people is safe. All business rests upon that. Every kind of business in every commercial community rests upon that. A jobbing merchant who would sell his whole stock to one man and charge it up to him on the books at sixty days' time would make an unsafe and dangerous trade. He would not think of doing it. But he can sell the same goods to a thousand different men on the same terms—on sixty days' time—and charge it on the books, and it is safe business. It is safe because he has distributed his risk among a thousand men. Among those thousand men there may be a man incapable or dishonest here and there, but upon the whole his customers will be honest and capable, and, as I have said, the whole business of the country rests upon the assumption, ascer-

tained by experience, that men as a rule are fairly intelligent and fairly honest.

In considering this question, the instinct of a man is to turn his thoughts toward a bad bank failure that he has heard of. Some men will point to the failure of the bank at Indianapolis, and assume from that that banks are not to be trusted. A railroad accident affects us the same way. Many people, a few weeks ago, hearing of the terrible accident that occurred on the Hudson River, felt that they never wanted to ride on a railroad again, and yet the next day the railroad published a statement showing that they had carried 26,000,000 people the year before without killing a man. So, on the whole, we know that it is safe to ride on the railroads. Insurance companies are ready to insure your life for a very small sum for railroad journeys, and they make lots of money by it. This proposed scheme brings into the support of the system this great law of average human competency and honesty, and the larger the number of them the stronger the system will be. If we proposed to-day to any man competent to form a judgment on the subject to take an insurance on one or two or three great banks in New York City, or the same amount on small banks throughout the country—I mean the aggregate of capital being the same—he would take the country banks in a moment. He gets the advantage of the law of average. They are just as honest, and, considering the properties they have to handle, they are as competent as the banks in the city.

So, on the part of the bankers themselves, I think a little reflection and a little patient consideration of the scheme will show them that it rests upon the most solid foundation of security to them that can possibly be afforded.

PROPOSED SYSTEM OF REDEMPTION.

There were two matters which passed in discussion this morning that I wanted to allude to for a moment. So far as the redemption of bank bills is concerned, this bill proposes that the present system of redemption shall continue at Washington out of a 5 per cent fund in gold coin, to be maintained by the banks, with power upon the part of the Secretary of the Treasury to establish additional points of redemption at other subtreasuries, according to his discretion.

Mr. COX. This system of redemption you provide for, as I take it, is in two points different from the old banking law. One of them is that you have different places of redemption?

Mr. TAYLOR. No; it would be just the same as the old law in that respect.

Mr. COX. Then the redemption is changed from what we may at present call lawful money into a redemption with gold?

Mr. TAYLOR. That is almost as I understand it, but not exactly. As the thing now stands, the national-bank notes are redeemed at Washington and at the counters of the banks. They are redeemed at no other places. They are redeemed at those places in lawful money simply. By the provisions of this bill, the redemption fund of 5 per cent which is to be maintained at Washington, in the hands of the Government, by the banks is to be in gold instead of lawful money. Hence, the redemptions of the national-bank notes which would take place at Washington or at other places, if the Secretary should so designate, would be in gold; but there is no requirement that the bank shall redeem in gold over its own counters. Its redemption over its own counter is made in lawful money.

I will give you my view about that, and tell you how that thing came about. This thing was discussed in these different aspects.

Mr. COX. Pardon me one moment. I do not want to be troublesome, but I do want to understand things. Under that system of redemption the notes are redeemable in gold?

Mr. TAYLOR. At Washington.

Mr. COX. But if presented at the bank that issued them—

Mr. TAYLOR. They may be redeemed in lawful money.

Mr. COX. Yes, sir; I understand. Now then, the banks—that was the point I brought up with Mr. Fairchild—may redeem their notes in silver, if they have it, and may refuse to redeem in gold, and yet the Government will redeem them in gold?

Mr. TAYLOR. Not the Government; the redemption is by the bank through the agency of the Government.

Mr. McCLEARY. The Government being the trustee for the bank?

Mr. TAYLOR. Yes, sir.

Mr. NEWLANDS. Making the fund as inaccessible as possible?

Mr. TAYLOR. I would like to disabuse your mind of that right here. The object was the very contrary. I do not want to forget this point, and so had better refer to it now.

Mr. COX. I would rather understand the point that I was on. I go to a bank. We will say you are the president. I have a lot of notes of your bank, we will say \$5,000, although the sum makes no difference, and I present them, and I say, "I want them redeemed in gold." You say, "No; I will not do it."

Mr. TAYLOR. I could say it.

Mr. COX. You say "I will redeem them in silver."

Mr. TAYLOR. I could do that.

Mr. COX. You have the right to do it. Now, how may I get gold?

Mr. TAYLOR. I must give you either silver dollars or greenbacks, one or the other.

Mr. COX. I am going on the idea that your bill has worked out the greenbacks.

Mr. JOHNSON. The ultimate result of the system.

Mr. TAYLOR. Then it must give you either gold or silver.

Mr. COX. It says "I will not give you gold."

Mr. TAYLOR. Then it will give you silver.

Mr. COX. Why not make that bank give you gold, as well as the Government?

Mr. TAYLOR. I will answer that and answer Mr. Newlands at the same time. The plan proposed contemplates as its ultimate result a system of gold banking purely. That is the ultimate object. The question arose whether the banks should be required at once to redeem in gold, or whether a partial redemption in gold should be required. It was considered that as far as the banks themselves were concerned they would be willing to consent to redeem in gold now. They already hold enough for the reserves, and as long as the Government was prepared to redeem greenbacks in gold they could easily get more if they wanted, so it was not a question of difficulty to the banks. The banks could well afford to say, "All right; if you say gold, it is gold." But it was considered if that was required at once that it might throw a burden upon the Treasury. Conservative bankers would say, "Very well; gold redemption is required of us, and it is prudent for us to have a big stock of gold in advance." It would therefore tend to precipitate a large demand on the Treasury for gold to store away in the vaults of the banks. Still we were not quite willing to leave the plan without some provision going some way toward actual gold redemption.

The banks are required to redeem in two places—at their own counters and at Washington. It was considered to be enough to require them to redeem at one place in gold. The chief redemption would take place in Washington. The redemptions at counters of banks throughout the country do not amount to anything in this country. There is not a dollar in one hundred thousand that is redeemed at the counter of the bank, but they are constantly being redeemed at Washington. That is why that was done. It is very desirable indeed that there shall be an active redemption of bank notes in any system. It is just as important that there shall be a constant and rapid circulation of the paper as it is important that there shall be a rapid circulation of blood in the human frame. Under a system like ours there is not a very great incentive toward redemption. It is important that there shall be an active redemption. In a system of banks like ours, scattered over a wide territory, with banks so far from one another, a sufficient inducement is not presented to the banks to lead them to send their notes home for redemption. A bank which would go over the contents of its cash drawer and pick out all the bank notes it had and send them home to the issuing banks every day would find that the trouble and expense would be out of proportion to the advantage, and they never would do that.

The course of trade brings constant currents of money to New York and to the large centers. The country banks have occasion from time to time to make large remittances of currency to New York. In making those remittances they pick out their national-bank notes and send them. They pick out by preference the old notes, and the dirty ones and the ragged ones, and if they have not enough of that sort they put in any others they have, and they send them in large remittances to New York City, primarily to make up their balances against which to draw exchange, but in doing that they send the national-bank notes, and the New York banks send them here to be redeemed. So, in point of fact, almost all the redemption there is through our entire system has been through our great cities and through the Treasury here, and the redemption comes around not because the banks care to redeem the notes, but because they make use of the currents of trade to send them into the centers, and the banks in the centers send them in for redemption. So the point of active redemption is not at the bank counters, but at the Treasury.

And so when the commission provided that the banks shall keep up this redemption fund in coin they provided a gold redemption for the greater part of the currency.

Mr. COX. Of course I understand the theory. Now, let us try to get down to practice and see how it works. You are a banker, and I go to your bank with \$1,000 of your notes, we will say, and I demand gold on them. Can you refuse it under this system?

Mr. TAYLOR. Yes, sir. If I have the silver I can refuse gold.

Mr. COX. Well, say you have not any silver.

Mr. TAYLOR. Well, then, I would have to give you gold.

Mr. COX. Suppose you declined to give it to me?

Mr. TAYLOR. The gold?

Mr. COX. Yes, sir.

Mr. TAYLOR. I would be guilty of an act of bankruptcy.

Mr. COX. Then you would put your bank into liquidation?

Mr. TAYLOR. Yes, sir.

Mr. COX. So, whether it goes into liquidation or not depends on whether you have the gold or silver?

Mr. TAYLOR. Certainly.

Mr. COX. Would it not be the very first object of the bank to keep in its vaults the gold and silver to meet its notes?

Mr. TAYLOR. Yes, sir; that would be very important.

Mr. COX. Would it not be the most important thing?

Mr. TAYLOR. No. The most important thing would be to get business.

Mr. COX. I am talking about its notes and not about its business—not about the business of making money. But you say to me when I present the notes, "I will not give you any gold, and I will not redeem in silver." That puts you in liquidation. Now, I still have the notes, where do I get my money?

Mr. TAYLOR. Out of the guaranty fund.

Mr. COX. I go to the Government and there get the gold?

Mr. TAYLOR. Yes, sir.

Mr. COX. When I present the notes you say, "I will pay you in silver and not in gold;" and I say, "I will take the silver." Then I take that silver to the Government and get the gold.

Mr. TAYLOR. Very well.

Mr. COX. You have paid me in silver and the Government has paid me in gold. So you make the duty upon the Government to redeem in gold and leave the bank the right to redeem in silver?

Mr. TAYLOR. That can come about.

Mr. COX. That is the law if you pass this bill?

Mr. TAYLOR. Yes, sir. Under the proposed law that may be done.

Mr. COX. That is what I am talking about. Let us follow it a step further. Does not that make it of the greatest interest to the banks to concentrate the silver in the banks?

Mr. TAYLOR. No.

Mr. COX. Well, they ought then to concentrate the gold.

Mr. TAYLOR. I take it the banks would keep both.

Mr. COX. Well, if I had a note out as a banker, and had to redeem it, I would want to keep something that would redeem it; would not you?

Mr. TAYLOR. Yes.

Mr. COX. And if I could not get the gold I should have silver. We will suppose I have the silver and it is in the bank. Now, with the silver in the banks, held for the redemption of their notes, I wish you would tell this committee how you will ever get a dollar of gold out of the Treasury under the process by which it is collected?

Mr. TAYLOR. I do not understand.

Mr. COX. How will you get it out? The banks have the silver; the greenbacks are gone, and here is a man that wants to get gold. He is not connected with the banks at all. How is he going to get any gold? What will he take up to the Treasury to get it with? Will he take silver?

Mr. TAYLOR. I will answer it in a practical way.

Mr. COX. We must look at what the law will do.

Mr. TAYLOR. We must look at the law to some extent in the light of experience, as to what we know men do and will do. And I think we can be pretty sure from that law that as a matter of fact, with an established gold standard, with a good monetary system, with a corps of intelligent and obliging bankers, nobody will have any trouble at any time, not one time in a million, in obtaining gold from the bank when he wants it and needs it. That is the experience of the world. That is what the bankers want to do—to accommodate the public.

When a man goes to a bank and wants gold, the bank will give it to him if it can. That is the view of it which will control the conduct of men and the course of business.

Now, as to its theoretical aspect. By the terms of this bill a bank has to pay its depositors in some kind of lawful money. It may pay greenbacks, and when they are gone it may pay them in silver. If it pays them in silver, the United States stands ready to exchange gold for the silver, so the currency of the country rests upon such a basis that men will not only be able to obtain gold when they want it, but they can compel it when they want it.

Mr. COX. Here is a depositor in a bank who has a thousand dollars deposited. He calls upon the bank to make good that deposit. The bank has to make it good in gold or silver. If they make it good in gold, that is the end of it. If the bank pays him in silver, then the man can take the silver and go to the Treasury and get the gold. Is that correct?

Mr. TAYLOR. Yes, sir.

Mr. COX. Now, he leaves the silver there in the place of the gold. The difficulty, in my mind, lies in this. With that kind of process, where is the Government to get the gold to redeem that silver or exchange it?

Mr. TAYLOR. Just as it does now. By its revenues when they are sufficient, and when that is not sufficient, by borrowing.

Mr. COX. So the Government is put in the attitude that it has to borrow the money in gold to redeem the bank notes, in effect, that the bank has redeemed in silver?

Mr. TAYLOR. Yes, sir; in that speculative case. In that imaginative case that would be what would occur.

Mr. COX. That is exactly correct, with that statement of facts, is it not?

Mr. TAYLOR. Yes, sir; but that is an imaginary case, which would not occur.

Mr. FOWLER. If a man lived 100 miles from the place where the Government redeemed, and the silver had to be shipped, who would pay the expressage?

Mr. TAYLOR. He would have to pay under the present rule.

Mr. FOWLER. In other words, it would be a premium on his gold when he got it?

Mr. TAYLOR. That is true, too, under the present law.

Mr. MITCHELL. The real reason, however, that the Government would have to borrow money under these conditions would be because there would be a deficit in its fiscal expenditures, and it would have to borrow money to make up that deficit.

Mr. TAYLOR. The same as any man does; yes, sir.

Mr. MITCHELL. It would not have to borrow that money, because we would be on a gold basis, any more than it would have to borrow it under a silver basis.

Mr. TAYLOR. Just the same.

Mr. NEWLANDS. You regard silver, then, as a debt?

Mr. TAYLOR. By the Government?

Mr. NEWLANDS. Yes.

Mr. TAYLOR. Not literally, and yet as an obligation; a good deal in the nature of a debt. The promise of the Government to maintain the parity of silver and gold is one that can not be executed except by its being ready to make the exchange.

CURRENCY NOT TO BE ISSUED AGAINST CAPITAL IN REAL ESTATE.

One word in regard to a matter discussed this morning touching the limitation in this bill of the issue of notes to so much of the capital as was not invested in real estate.

The question was really a question of the construction of section 18 of the proposed bill. The language of section 18 of the bill is that circulating notes may be issued to a bank to an amount not exceeding the amount of such paid-up and unimpaired capital, after deducting therefrom its investment in real estate. Now, the language of the scheme contained in the report as adopted by the commission differs a little from that found in the bill. I am sure it was not intended to introduce any new provision, but the difference is one which might have that effect. The scheme adopted by the commission, which you have in the report, was in these words: "The total issue of any national bank shall not exceed the amount of its paid-up and unimpaired capital, exclusive of so much thereof as is invested in real estate."

The construction which I think belongs to those words, and this construction was in the minds, I know, of the gentlemen who adopted that, was that a bank should be restricted in the issue of its notes to so much of its capital as it had not invested in real estate; that if it had an investment of real estate covered by its surplus the limitation would not apply, but it would only apply to the cases in which a portion of the bank's capital was in real estate. As the bill stands, it says, "so much of its paid-up and unimpaired capital, after deducting therefrom its investments in real estate."

Mr. COX. Although it may have a surplus?

Mr. TAYLOR. Yes. I can see readily a question might arise there, and I know the idea in the minds of the gentlemen was this: That it was wise that the banks' capital, strictly so called, the amount of money paid in on its shares as a basis of circulating notes, should not be in real estate. Not that the bank should not own real estate, but that the amount of its capital should be kept in active securities.

Mr. HILL. "After deducting therefrom its investment in real estate in excess of surplus;" that would remedy it entirely, would it not?

Mr. TAYLOR. We would not need so much to remedy it.

Mr. HILL. How would you suggest to remedy it?

Mr. TAYLOR. The language of the original scheme seems to me to express it.

Mr. HILL. How is that?

Mr. TAYLOR. "That the total issues of any national bank shall not exceed the total amount of its paid-up and unimpaired capital, exclusive of so much thereof as is invested in real estate." That is the language of the original scheme.

The CHAIRMAN. If it has a surplus that would close it out?

Mr. TAYLOR. It would.

The CHAIRMAN. You would have to show that they have not other funds; so why incorporate anything there when it is not necessary?

Mr. TAYLOR. I do not know that it is necessary. I simply say the suggestion of Mr. Cox opened up a question I had not thought about.

Mr. COX. A bank through its collections has gotten some real estate, and it may appear that some of its capital stock is invested in that, but when you come to its undivided profits, or its surplus account, it can be charged as that much of its surplus or its undivided profits in real estate.

Mr. TAYLOR. I should think a bank ought to be allowed to issue notes up to the amount of its capital, so long as it can show that it has an amount equal to its capital in quick assets.

POPULAR IDEA OF BANK NOTES.

Mr. NEWLANDS. You said you were in favor of the retirement of the greenbacks because you thought that they had the effect of miseducating the people as to money; that you wanted to preserve the distinction between money and a debt. Now, will not the issue of bank notes, which are simply the promissory notes of a bank, debts of a bank, engraved upon paper and payable to bearer, but having the appearance of money, have the same miseducating effect upon the people as the issue of these greenbacks?

Mr. TAYLOR. I do not think so.

Mr. NEWLANDS. How would you distinguish between them?

Mr. TAYLOR. I think that the common people, the great mass of people, are quite able to keep in mind the distinction between a corporation and the Government, and in handling a piece of paper issued by a bank they will recognize it as simply a promise.

Mr. NEWLANDS. You do not think that nine out of ten people who have notes in their pockets, national-bank notes, greenbacks, and Treasury notes, regard the national-bank notes as money as much as they do the greenbacks?

Mr. TAYLOR. I think they do, but they know the difference.

Mr. NEWLANDS. You think they know the difference?

Mr. TAYLOR. Yes, sir.

Mr. NEWLANDS. You think that in one case they regard the Government's debt as pure money, and they regard the bank's debt as purely a promise to pay money?

Mr. TAYLOR. Not quite so broadly as that, but I think the tendency of the use of that kind of money is in that direction, and the result of it is that a considerable number of people come to regard the Government money as good because the Government issues it.

Mr. NEWLANDS. But you regard the bank notes, and you expect the country itself to regard these bank notes, as good, do you not, because they are issued under the authority of law and with proper authority behind them?

Mr. TAYLOR. Yes, sir; the country will regard the bank notes as good because they have confidence in the security which is behind them.

Mr. NEWLANDS. Now, regarding the greenbacks, as I understand it, you propose to substitute for the demand notes of the Government the demand notes of the banks?

Mr. TAYLOR. Eventually.

Mr. NEWLANDS. Eventually. In order to prevent a contraction of the currency, and ultimately you propose to retire what amount of Government notes?

Mr. TAYLOR. About \$450,000,000.

Mr. NEWLANDS. Suppose all those notes were retired immediately, without substitution, what would be the effect on the country?

Mr. TAYLOR. I think it would be disastrous.

Mr. NEWLANDS. In what way?

Mr. TAYLOR. Well, I think it would produce a violent contraction of the currency, which would disturb monetary conditions, and create

a stringency in the market, and result in evils following from those conditions.

Mr. NEWLANDS. Would it affect credit?

Mr. TAYLOR. In that way it would.

Mr. NEWLANDS. Banks would refuse to make loans?

Mr. TAYLOR. I think they would; at least they would hesitate about it.

Mr. NEWLANDS. What would be the effect if you should retire in the same way all the silver in the country—throw it into the sea, for instance?

Mr. TAYLOR. Suddenly?

Mr. NEWLANDS. Yes; without the substitution of anything.

Mr. TAYLOR. I think the result would be simply——

Mr. NEWLANDS. You could hardly picture the disaster?

Mr. TAYLOR. As I am something of an artist in that way, I do not know but that I could.

Mr. NEWLANDS. I would be glad if you would.

Mr. TAYLOR. I think I would rather admit that I could not than endeavor to do so.

Mr. NEWLANDS. At all events the effect would be disastrous on the country?

Mr. TAYLOR. I think it would.

Mr. NEWLANDS. Then I take it you do not believe in the theory which has recently been so pressed, that the values of the country do not depend on the money volume?

Mr. TAYLOR. I can not answer that question by yes or no.

Mr. JOHNSON. Let me suggest that when he says the money volume he does not refer to coin.

Mr. NEWLANDS. You regard the greenbacks and the coin as constituting parts of the present money volume of the country, do you not?

Mr. TAYLOR. I do.

Mr. NEWLANDS. Did I understand you to say that the elimination of the greenbacks suddenly, without any substitution, would produce disaster to the country?

Mr. TAYLOR. I think it would.

Mr. NEWLANDS. That the elimination suddenly without any substitution would produce disaster. Then I ask you the further question, whether you believe in the doctrine that the values of the country do not depend at all upon the volume of circulation?

Mr. TAYLOR. I think that the volume of money in circulation has very little to do with values. I will not say nothing, but little. I mean to say, unless you suppose a very extreme case and a very permanent condition.

Mr. NEWLANDS. You have spoken of disaster as the result of the withdrawal of greenbacks or silver without a substitute. That disaster is the destruction of values, is it not?

Mr. TAYLOR. No; that is not its primary character.

Mr. NEWLANDS. What is it?

Mr. TAYLOR. It is the suspension of credit.

Mr. NEWLANDS. Very well. What effect would the suspension of credit produce on the general values of the country?

Mr. TAYLOR. Not any, necessarily.

Mr. NEWLANDS. None? Then what injury is there in a suspension of credit?

Mr. TAYLOR. Men are unable to meet their obligations, and the course of business is interfered with.

Mr. NEWLANDS. What do you mean when you say a man is unable to meet his obligations?

Mr. TAYLOR. He is unable to pay his debts.

Mr. NEWLANDS. Do you mean he has not the money to pay them?

Mr. TAYLOR. Yes; and can not pay.

Mr. NEWLANDS. Even if he has property?

Mr. TAYLOR. Yes, sir.

Mr. NEWLANDS. Which means, then, that the value of the property has depreciated, or that it has no salable value.

Mr. TAYLOR. You are discussing definitions rather than things.

Mr. NEWLANDS. Is not that the fact?

Mr. TAYLOR. Not in the true sense; no.

Mr. NEWLANDS. We will take the case of a general suspension of credit, and that prior to that a man owes \$100,000, and has property worth in the market \$200,000. The debt comes due, as you say, and he has not the money to pay it, but he has the property previously worth \$200,000. What is the result of there being no sale for his property?

Mr. TAYLOR. He is unable to pay, because he can not get the money.

Mr. NEWLANDS. That means he can not sell the property?

Mr. TAYLOR. It may mean that he can not sell it, or it may mean that he does not want to sell it.

Thereupon, at 4.30 o'clock, the committee adjourned until the following day, January 14, 1898, at 10.30 o'clock a. m.

COMMITTEE ON BANKING AND CURRENCY,
WASHINGTON, D. C., *January 14, 1898.*

THIRD DAY.

The committee met at 10.30 o'clock a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Johnson, McCleary, Fowler, Spalding, Hill, Prince, Mitchell, Capron, Cox, Newlands, Stallings, Ermentrout, and Maddox.

Hon. Robert S. Taylor continued his statement begun on the preceding day.

STATEMENT OF HON. ROBERT S. TAYLOR, OF INDIANA, A MEMBER OF THE MONETARY COMMISSION—Continued.

Mr. TAYLOR. I felt some embarrassment yesterday afternoon in consequence of the length of time my remarks occupied, and I omitted to make a remark on one part of the general system that I would like to make just now. That point is in relation to what seems to me to be the valuable feature of this bill in affording opportunities for the organization of small banks and the issue of currency by them in the South and West. There is no doubt, I think, that a large part of our country, especially in the South and West, is suffering seriously from a want of adequate banking facilities. I am well aware that business can not be created by the organization of banks. Business conditions must precede banks. At the same time, with our state of civilization, banks are almost as indispensable to business as railroads, and there arrives a time in the development of every community when the general extension of banking facilities is of great importance, and the progress of society will be much delayed if they are wanting.

BANKS OF SMALL CAPITAL.

Two provisions in this bill, it seems to me, have a bearing in that direction. One is the reduction of the minimum amount of capital to \$25,000; the other, no less important, the provision that currency can be issued from a small bank. Take these together, and small banks can be organized just as easily as they could possibly be organized under any conservative system of State banking. No State could pass any law which could authorize the organization of banks of issue which would be safe at all, and which would be useful, which would be more easily complied with by gentlemen desiring to organize banks, than those provided for in this bill.

In addition to that, a bank could not only organize as easily under the provisions of this bill as it could under any conservative State-bank law, but it would have, when organized, the advantage of membership under a great national system, and would issue its notes under the common guaranty of all the banks, and be received at once into the great brotherhood of the national system, which would be a great advantage over any privilege a State could confer upon its own local organizations.

BRANCH BANKS.

As to the relative advantages of small banks and branches established by the larger banks of the great cities, I do not think I have an opinion which is of much value. The interests of communities can be met in either way.

One great advantage, it appears to me, might be derived from the general introduction of a system of branch banks. It would tend to equalize interest more effectually than any other thing. It has worked so in Canada. Canada has a very wide extent of country. It is more widely extended than our country is, and yet, under their system of branch banks, the rates of interest in the most remote corners are practically the same as in the great centers. The banks in the great centers send out currency to their branches to be loaned under the direction of their own officers, and can thereby afford to lend it at terms little or no greater than are given to their customers at home. The independent local bank, on the other hand, however, takes advantage of its surrounding conditions and charges all the interest it can under the circumstances.

This country is very democratic in its ideas on banking, as in everything else, and it seems to me that the natural order of things with us is to develop from smaller things to greater. So I am not so very sanguine of the ready adoption by the people of branch banks.

Mr. HILL. How about the local support and sympathy and aid?

Mr. TAYLOR. I do not think I can foresee just how that would work. The bill provides for both, and I would like to see them both in the law.

Mr. COX. As incorporated in this bill, the establishment of branch banks is under the control of the Comptroller of the Currency?

Mr. TAYLOR. Yes, sir.

Mr. COX. Let me call your attention to this. The large banks, such as the National Chemical Bank of New York, with immense capital and deposits, would have the authority under this bill to establish a bank in my State. Is not the inevitable result that collecting the interest

under that branch bank system would take the currency away from home and carry it back to the great center?

Mr. TAYLOR. That would result if the capital is furnished from New York. Of course the interest would go back to New York, under those circumstances.

Mr. COX. Allow me to say that one of the most serious troubles we have in the South is the interest going away from us, and your branch banks from your great centers would exhaust the money, as far as the interest is concerned, just as it does now. Is not that so?

Mr. TAYLOR. It has two sides to it.

Mr. COX. It does not seem so to me. We pay the interest on it and it goes home. It looks to me like pumping the water out of us pretty fast.

Mr. TAYLOR. I will give you my view. It is true that under those circumstances the interest will go into the pockets of the men who furnish the money, who live in New York—or wherever they live; but so far as the flow of money from one part of the country to the other is concerned, that will be governed by business conditions which are beyond the control of law, and it is a matter of more concern to the people of Tennessee as to how much interest they pay than where it goes after they pay it. If they could reduce their rate of interest to one-half what they pay now they would be comparatively indifferent to where it went after it left their hands. If business conditions existed in Tennessee which made a demand for the money it would go back there.

At the same time, however, I agree with Mr. Cox in the idea that there is a counterbalancing advantage in the organizing of local banks, in this, that they tend to foster and develop the local loans and industries and investments, and not only keep the money at home, but build up business at home.

TRUE BANKING CURRENCY REDUCES INTEREST RATES.

The CHAIRMAN. Is it not a fact that in the issuing of true banking currency every bit of the currency issued by the bank that it can keep in circulation diminishes the rate of interest they are obliged to charge on their loans and discounts to pay the same dividends on their capital, by the proportion that the amount of currency in circulation bears to the total loans and discounts? Do you not think that is true?

Mr. TAYLOR. I should think so.

The CHAIRMAN. Secondly, if that is true, then a bank, located in a neighborhood in the South that issues its currency and puts out its notes in circulation, can loan its money at just as much less as suggested in proportion, and is not that why loans in Canada are made at the extreme points of Canada—and the same way in France and Germany—at as low a rate of interest as they are in their big cities?

Mr. TAYLOR. I do not think I feel competent to say yes or no; your question involves so many elements.

The CHAIRMAN. It involves a statement of facts. Loans were made in this country under the old system, and assuming it as a fact that they are made in Canada at the same rates of interest, and in France and Germany at about the same rates of interest as in the large cities, is it not because of the currency system, where they issue true banking currency?

Mr. TAYLOR. I should say largely; but I should also say it would—

The CHAIRMAN. True banking currency, you understand, means a currency that costs nothing to the bank except the printing of it.

STOCK OF VISIBLE GOLD.

Mr. NEWLANDS. Mr. Taylor, I presume that your commission in its work inquired into the monetary systems of other countries?

Mr. TAYLOR. Somewhat. That is, some of the members of the commission were very familiar with those things, and some of them were not. I belonged to the latter class.

Mr. NEWLANDS. I wish to ask you what country, in your judgment, has the best monetary and financial system in the world?

Mr. TAYLOR. I can not answer that. The goodness of a financial system, I think, depends upon its wise adaptation to the habits of the people.

Mr. NEWLANDS. Of that country?

Mr. TAYLOR. Yes; and that makes the question more difficult to answer.

Mr. NEWLANDS. Was there any effort in the framing of this bill to model our monetary system after that of any other country?

Mr. TAYLOR. No, sir; no effort of that kind.

Mr. NEWLANDS. I observe that in your report, on page 5, you state that the Treasury estimates that the stock of gold in the country is \$729,000,000. Did you make any inquiry or investigation as to the correctness of that statement?

Mr. TAYLOR. I did not.

Mr. NEWLANDS. Did the commission?

Mr. TAYLOR. Not as a whole.

Mr. NEWLANDS. Could you tell us where that gold is located?

Mr. TAYLOR. I do not know where it is.

Mr. NEWLANDS. Could you tell us how much of it is located in the Treasury?

Mr. TAYLOR. For that I should depend entirely on the official reports of the Government, and I do not now recall the figures. I know from time to time something about what is reported to be in the Treasury, and I am aware that it has reached a point somewhere in the neighborhood of \$150,000,000. I may say further, that my remembrance is that the amount in the national banks is somewhere in the neighborhood of \$200,000,000, roughly speaking.

Mr. NEWLANDS. That makes \$350,000,000?

Mr. FOWLER. \$400,000,000. About \$200,000,000 in the United States Treasury, covering that included by the certificates.

Mr. NEWLANDS. Mr. Taylor stated that his impression was about \$150,000,000.

Mr. TAYLOR. I do not embrace in that the amount of gold held against certificates.

Mr. NEWLANDS. What amount is held against certificates in the Treasury?

Mr. TAYLOR. Well, I do not remember. It would seem to me to be somewhere in the neighborhood of \$40,000,000. These are very general statements, and a worse man than I for figures never lived. I am at a loss sometimes to tell my own age, since I have got so well along in years.

Mr. NEWLANDS. That makes \$190,000,000, then, in the Treasury, and your recollection was that about \$200,000,000 was in the national banks?

Mr. TAYLOR. Yes, sir; roughly speaking.

Mr. NEWLANDS. That makes, then, \$390,000,000, does it not?

Mr. TAYLOR. Yes.

Mr. NEWLANDS. And leaves \$339,000,000 outstanding, outside of the

Treasury and outside of the national banks? Did you have any statement as to where that amount was?

Mr. TAYLOR. I can not say that we had. In regard to those figures I should say this: That part of the subject was in the hands of a committee, of which I was not a member, a committee entirely competent to handle the subject, and in whose carefulness in respect to statements of that kind I had, and have at this moment, absolute confidence. Mr. Patterson, of Philadelphia, was the chairman of that committee, and prepared those figures and prepared that part of the report. I have myself absolute confidence in his accuracy, but I should be poorly equipped to give you the facts upon which it was based.

Mr. COX. I would call your attention to page 9 of your report. There you estimate that \$729,000,000 in gold, \$53,000,000 in silver, in addition to \$36,000,000 held against outstanding silver certificates, are held by the Treasury. That means that there is \$53,000,000, plus the \$36,000,000, in the Treasury, and \$195,000,000 is held by the banks?

Mr. NEWLANDS. That is approximately what Mr. Taylor stated.

Mr. COX. But it says in addition to the other.

Mr. NEWLANDS. About \$190,000,000, including the gold held against the certificates, is in the Treasury, and about \$200,000,000, or, as stated in your report, \$195,000,000, in the banks. That makes about \$385,000,000; and subtracting that from \$739,000,000, leaves about \$350,000,000 of gold unaccounted for so far. Now, where is that gold?

Mr. TAYLOR. I have never taken any trouble at all to follow the Treasury estimates to their sources, and can give you no information on that subject.

Mr. NEWLANDS. I presume a certain portion of it is in the State banks?

Mr. TAYLOR. Certainly; and in trust companies and private banks, and in the pockets of individuals.

Mr. NEWLANDS. Yes. According to your experience and judgment, is there much of that gold in the pockets of the people?

Mr. TAYLOR. I am utterly unable to tell how much, but I have no doubt that there is a large amount in the hands of the people.

Mr. NEWLANDS. Do you ever see any gold in circulation?

Mr. TAYLOR. Yes, sir.

Mr. NEWLANDS. Passing around from hand to hand?

Mr. TAYLOR. Oh, yes.

Mr. NEWLANDS. In the State of Indiana?

Mr. TAYLOR. Oh, yes.

Mr. NEWLANDS. But you have no idea how much is in the hands of the people?

Mr. TAYLOR. I could not tell that.

BANK RESERVES.

Mr. NEWLANDS. Have you any information as to the relative capitalization, deposits, and cash reserves of the State banks and private banks as compared with the national banks?

Mr. TAYLOR. I can not give you those figures. My recollection is that the capitalization of the State banks was, in the aggregate, something near \$200,000,000.

Mr. NEWLANDS. Less than the capitalization of the national banks?

Mr. TAYLOR. I think that is correct.

Mr. NEWLANDS. What is your recollection of the capitalization of the national banks?

Mr. TAYLOR. \$620,000,000 or \$630,000,000.

Mr. NEWLANDS. Now, as to the deposits in the State banks, have you any conception of the extent of those deposits as compared with the deposits in the national banks?

Mr. TAYLOR. I do not recall.

Mr. NEWLANDS. What are the deposits in the national banks?

Mr. TAYLOR. I think something like \$2,000,000,000.

Mr. NEWLANDS. \$2,000,000,000?

Mr. TAYLOR. Yes; nearly that.

Mr. NEWLANDS. Have you any idea of the amount of deposits in those banks?

Mr. TAYLOR. No, sir.

Mr. NEWLANDS. Have you any idea of the amount of the deposits in trust companies and saving banks?

Mr. TAYLOR. I have seen those figures, but as I say, I do not think it would be prudent for me to undertake to state them.

Mr. NEWLANDS. Have you any idea of the cash reserves held against deposits in either State banks, or private banks, or trust companies and savings banks?

Mr. TAYLOR. In the national banks the reserves held, I think, are a good deal in excess of their legal requirements in the aggregate.

Mr. NEWLANDS. But you do not know as to these others?

Mr. TAYLOR. The relation of reserves to deposits I should say was in the State banks as great as that of the national banks. I think, take the whole country over, that bankers have by experience and common judgment practically settled among themselves what prudence dictates, and they hold voluntarily reserves somewhat in excess of those prescribed by law, both in State banking institutions and in national banking institutions.

Mr. NEWLANDS. I understand the purpose of this bill to be to gradually retire the United States notes, which constitute a part of the reserve of national banks, State banks, trust companies, and savings banks?

Mr. TAYLOR. That is a part of its purpose.

Mr. NEWLANDS. And to substitute for them national-bank notes, which can not constitute a part of such reserves? Is not that true?

Mr. TAYLOR. Pretty nearly so. It is a part of the purpose of the bill to ultimately put out national-bank notes in place of the Government notes as part of the currency. And as the bill is drawn, the national-bank notes would not be usable as reserve money.

Mr. NEWLANDS. So that ultimately the United States notes would be entirely eliminated from the reserves of banks?

Mr. TAYLOR. That is the principle upon which the bill goes. I do not know how long it might take to effect that.

Mr. NEWLANDS. But the purpose of this bill is to effect it within ten years?

Mr. TAYLOR. To give opportunity to effect it within ten years.

Mr. NEWLANDS. Now, in that connection, inasmuch as the bill offers no substitute for the money which constitutes a portion of the reserves of all these banks and banking institutions, is it not an impossibility to ascertain exactly the present deposits of all the banks collectively, and not alone of the national banks, and the amount of the reserves of those banks, and the extent, if any, to which those reserves can be diminished without interfering with and depleting the present system of deposits and checks?

Mr. TAYLOR. Naturally, that is a thing to be considered.

Mr. NEWLANDS. Those relations, then, ought to be considered?

Mr. TAYLOR. Certainly.

Mr. NEWLANDS. But you say you do not regard yourself as qualified to give information upon that particular question—the amount of deposits?

Mr. TAYLOR. Not exact information.

Mr. NEWLANDS. I would like such information as you have, because, of course, we expect generalizations in these matters.

Mr. TAYLOR. I do not know of any part of your query to which your present question could relate that has not been spoken of, unless it is the question of deposits in State banks and trust companies. I do not believe that I have in my mind, with sufficient distinctness to state it, just the relation between the deposits in national banks and other institutions; but my impression is that the difference between the two is not very great, and that the preponderance is in favor of the national banks. The chairman hands me at this moment a statement from the Comptroller of the Currency showing the probable amount of deposits.

Mr. NEWLANDS. Please state the page.

Mr. TAYLOR. It is on page 27, "Suggestions and tables" [see page 381, Table J], prepared by the chairman of the committee. This table indicates a total amount of deposits in national banks of \$1,853,000,000, and deposits in the State banks, including 12½ per cent of State banks which failed to report, upon which I suppose an estimate was made, of \$826,000. That is a less sum than I supposed.

Mr. COX. What is the amount of deposits there?

Mr. TAYLOR. The amount in national banks is \$1,853,000,000, and the amount which I gave to Mr. Newlands is about \$2,000,000,000, and the amount in State banks is given at \$827,000,000.

Mr. COX. Deposits in State banks how much?

Mr. TAYLOR. \$827,000,000, in round numbers. Now, I am not able to say whether or no in State banks there are included all trust companies.

The CHAIRMAN. No. Purely banks of loan and discount.

Mr. COX. You see the Comptroller compiles this, and he shows the States left out, from which he did not get reports. I have in my hand a statement which includes all the State institutions and all the banks other than national banks, and you will find from that table that the deposits amount to \$3,294,000,000 in the banks other than national, and that the amount of specie—

Mr. HILL. That is a mistake. If you will turn to page 381, you will see you have included all the savings banks and trust companies.

The CHAIRMAN. Commercial banks are all I reported.

Mr. COX. If you will read the page preceding that, it is absolutely plain. In that table on page 381 he separates and distinguishes between the banks.

Mr. TAYLOR. Savings banks, trust companies that do not do a commercial business.

Mr. COX. On another page he does not distinguish between the different kinds of banks, but puts them all together and gets the gross sum, including all banks.

Mr. HILL. But he takes in savings banks, which would require to carry a reserve against deposits.

The CHAIRMAN. I am not talking about that.

Mr. HILL. Let us get it right.

Mr. TAYLOR. I would like to say that in the answer I made to Mr. Newlands I had in mind not State banks, strictly so called, but State banks receiving deposits subject to check, and against which it would

be necessary on sound business principles to maintain a reserve. I gave the answer that, according to my vague recollection, the total amount of such deposits was not very widely different from those found in national banks. It was in that sense I made the answer.

Mr. NEWLANDS. Are you prepared to say, Mr. Taylor, what percentage of reserves in greenbacks, gold and silver—I believe that constitutes the only money which can be held in reserves against those deposits—is held now, on the average?

Mr. TAYLOR. No, except in a general way, that the actual reserves exceed the requirements.

The CHAIRMAN. While I do not desire to interrupt Mr. Newlands in his examination, I would suggest that all the figures which he has been endeavoring to obtain from Judge Taylor are in this pamphlet which is before the committee, and which I have prepared with great care from the official reports. They are the most complete tables ever given.

Mr. NEWLANDS. I am simply inquiring of Mr. Taylor as to the deposits in banks and the existing reserves, and whether or not those greenbacks can be safely eliminated without producing a reduction in the amount of loans and discounts, which in itself would mean the prostration of credit. That is the sole purpose of my inquiry.

Mr. TAYLOR. I have no objection to it at all.

Mr. NEWLANDS. I asked Mr. Taylor whether he paid especial attention to that question.

Mr. TAYLOR. I do not know that I can say that I did pay especial attention to it. A good deal depends upon what you mean by "especial."

Mr. NEWLANDS. I would be very glad if you would give us any information you have upon that subject which led you to the conclusion that you could safely eliminate from bank reserves the United States notes which are now held there.

Mr. TAYLOR. I can tell you the process that my mind went through on that subject. It was this: That in any sound system of currency the paper currency must rest on a gold reserve held somewhere, adequate in amount and securely maintained under such safeguards as would make the practical redemption of paper certain; that that condition is just as onerous a one applied to the Government as it is applied to banks; and that so far as the necessity of maintaining the gold reserve against paper is concerned, it confronts us as inevitably with the Government's paper circulation as it does with a bank's paper circulation, and that we can not relieve ourselves from that situation of things by issuing paper money by the Government and calling that gold when it is not; and that a process of change, going on by slow degrees, under which the Government's currency would be retired, and the gold held in the Treasury to protect that let loose in society would give us in the end quite as adequate a supply of gold for the protection of paper and the means of using it for that purpose as the one we now have. That conclusion I reached without basing it upon any exact mathematical calculation of quantity. I was not led to that by any addition and subtraction of existing deposits and reserves. I believed, and I believe now, that with a suitably organized monetary system that question will take care of itself with a greater degree of safety than we can take care of it by any artificial arrangement that we can make.

Mr. NEWLANDS. Your view of it was, then, I take it, that a large portion of these greenbacks would be retired by the letting out of the gold from the Treasury, and that that gold would take the place of the greenbacks retired. Was that it?

Mr. TAYLOR. Yes; ultimately.

Mr. NEWLANDS. So that gold would go into the banks as reserves in the place of the greenbacks?

Mr. TAYLOR. No; go into the hands of the community, and so much of it as the banks cared to have would go there.

Mr. NEWLANDS. But assuming now that the banks have, according to the Comptroller's report, \$246,000,000 of United States notes as bank reserves, your view was that that would be replaced by gold?

Mr. TAYLOR. I think so.

Mr. NEWLANDS. And that that gold would come from the Treasury?

Mr. TAYLOR. No; some of it would come from the Treasury.

Mr. NEWLANDS. So much of it as was used for the redemption of the greenbacks would go into each bank as reserves in the place of the greenbacks?

Mr. TAYLOR. Go into circulation?

DIMINISHING THE GOLD RESERVE.

Mr. NEWLANDS. Yes; and drift from there to the banks. Now, then, does your bill provide for any diminution of the present gold reserve in the Treasury of the United States?

Mr. TAYLOR. Yes.

Mr. NEWLANDS. To what amount would it reduce it?

Mr. TAYLOR. It provides it should be kept to the amount equal to 25 per cent of the outstanding notes.

Mr. NEWLANDS. Twenty-five per cent of the outstanding notes?

Mr. TAYLOR. Yes; so far as notes go. As the volume of notes is reduced the reserve would be.

Mr. NEWLANDS. Twenty-five per cent, then, of the outstanding notes would be what, approximately?

Mr. TAYLOR. At the present time?

Mr. NEWLANDS. Yes.

Mr. TAYLOR. \$112,000,000.

Mr. NEWLANDS. So the Treasury, then, out of this \$150,000,000 could let out \$30,000,000 at the present time?

Mr. TAYLOR. No; the bill provides that the reserve fund shall consist of an amount equal to 25 per cent of the outstanding notes and 5 per cent of the silver-dollar coinage.

Mr. NEWLANDS. Five per cent of the silver coinage amounts to what?

Mr. TAYLOR. Something over \$20,000,000.

Mr. NEWLANDS. So all the gold in the Treasury at present would be required to meet existing requirements?

Mr. TAYLOR. Not all.

Mr. NEWLANDS. Very nearly. If not all, then what amount?

Mr. TAYLOR. It would take about \$132,000,000 or \$135,000,000, and there is something over \$150,000,000 there now, I believe.

Mr. NEWLANDS. So there would be \$15,000,000 still available?

Mr. TAYLOR. Something like that.

Mr. NEWLANDS. That \$15,000,000, then, would be available for the redemption of greenbacks and take their place in circulation, and part of it drift into the banks?

Mr. TAYLOR. Not at all. That would be in the general Treasury, according to this bill. The operation of the bill would require the transfer from the general fund to the division of issue and redemption of about \$135,000,000, leaving, say, \$15,000,000 or \$20,000,000 in the Treasury for general purposes, and the redemption would take place in the division of issue and redemption.

Mr. NEWLANDS. Out of the reserve fund there?

Mr. TAYLOR. Yes, sir.

Mr. NEWLANDS. Well, as you retire the greenbacks, then, by paying out gold for them, what would you have to provide additional gold other than that at present in the Treasury?

Mr. TAYLOR. You would have to increase the redemption fund by 75 per cent, from time to time, of the amount of notes redeemed. For instance, suppose the redemption of the notes had gone to the extent of \$50,000,000. You would then have reduced your gold reserve \$50,000,000. You would also have reduced the amount of notes outstanding \$50,000,000, and therefore the reserve would be \$12,500,000 less. Do you see?

Mr. NEWLANDS. Yes, I see that.

Mr. TAYLOR. So the amount of gold necessary, after you had done that to restore the reserve, would be \$122,500,000.

Mr. NEWLANDS. Then your idea is, if I understand you correctly, that the present stock of gold in the Treasury will be ample, without issuing bonds, to make gradual redemption of the United States notes?

Mr. TAYLOR. Without any addition to it?

Mr. NEWLANDS. Yes.

Mr. TAYLOR. Oh, no.

Mr. NEWLANDS. Very well, then, how would you secure these additions to it?

Mr. TAYLOR. By transfers, from the general Treasury to the redemption fund, of surplus revenue, if there is any such revenue.

Mr. NEWLANDS. You mean transfers of gold?

Mr. TAYLOR. Yes.

Mr. NEWLANDS. If there is such gold; if such gold goes into the Treasury?

Mr. TAYLOR. Yes. If there is no surplus revenue available in sufficient volume to meet the requirements of redemption, then the Government would have to do as it does now—borrow money on bonds.

Mr. NEWLANDS. Then, I understand it to be your idea that when this thing is complete the banks, assuming their deposits are the same as they are now, will have the same amount of reserve as they have now, only gold will be substituted for the greenbacks?

Mr. TAYLOR. I should think so.

Mr. NEWLANDS. Would you regard that as material?

Mr. TAYLOR. Gold and silver, not necessarily all gold. As the bill stands it provides that reserves may be kept one-half in silver in the banks, and the notes may be paid in lawful money, which includes silver.

Mr. NEWLANDS. You would expect, then, gold and silver to take the place of the greenbacks that are now in the reserves of the banks?

Mr. TAYLOR. Take the place of the gold and silver and greenbacks.

Mr. NEWLANDS. The gold would have to come from the Treasury of the United States, would it not?

Mr. TAYLOR. No.

Mr. NEWLANDS. Where else could you get it?

Mr. TAYLOR. Out of our mines, and from all quarters of the world.

Mr. NEWLANDS. You mean the mines from all quarters of the world?

Mr. TAYLOR. Yes; including our own. I do not know that we are prevented from getting it from any place where gold is produced?

Mr. NEWLANDS. You mean that we would get our portion of the annual production of the world?

Mr. TAYLOR. No; not that. We would get so much of what there

is in the world as would come to us in the consequence of our business, and I am sure that would be enough.

Mr. NEWLANDS. You rely, then, upon gold that comes from the Treasury and gold that comes from the ordinary transaction of business?

Mr. TAYLOR. Yes; and what is here already.

Mr. NEWLANDS. Now, as to this silver that goes into the bank reserves. As I understand it, the silver is now practically in circulation among the people, almost all of it, is it not? I mean through these silver certificates.

Mr. TAYLOR. The greater portion of it is. In some places the banks hold considerable amounts.

Mr. NEWLANDS. That is all.

[Mr. Taylor having concluded his statement, the chairman introduced to the committee Mr. J. W. Fries, of North Carolina, a member of the Monetary Commission.]

STATEMENT OF MR. J. W. FRIES, OF NORTH CAROLINA, A MEMBER OF THE MONETARY COMMISSION.

Mr. FRIES said:

Mr. Chairman and gentlemen of the committee: I was bred and have lived as a manufacturer of cotton and woolen goods, and have spent my life in that way. My factories are at Salem, N. C. I have lived there all my life. Incidentally I would say that I am president of a national bank in Winston, N. C., and director of a trust company at the same place.

The CHAIRMAN. What is the population of Winston?

Mr. FRIES. Salem and Winston together, and they are practically one community, have about 20,000 people, I suppose, and Winston is a place of some commercial importance, being the seat of the largest plug tobacco manufactories in the South.

NORTH CAROLINA HAS ITS TROUBLES.

Gentlemen, I shall not come with a long tale of woe. If it were true that North Carolina had nothing but turpentine distilleries in the east and illicit whisky stills in the west, I would not admit it. Since it is not true, there is the more reason why I should not say so. We have had our troubles, but I can say that they are not peculiar to North Carolina. I take it to be a fact that the human family, about every generation, has to sow its wild oats, and when the epidemic struck the world the last time we in North Carolina caught the infection and suffered from the riotous living which culminated in the Baring failure in the world at large and in the collapse of our land booms in the South. We have suffered and still are suffering from the debility and weariness of convalescence.

We are suffering from a good many other things. North Carolina furnished the country with the great Apostle of Discontent, Col. Leonidas L. Polk; it has furnished the brains and wickedness of the American Tobacco Company, which it is said robs the growers of bright tobacco of half its value and debauches our youth with the wicked cigarette. We have a department of agriculture and a school of politics which teaches the farmer he is oppressed and downtrodden by Providence and his neighbor generally.

. We have in addition to that the regular ordinary classes of people who are always clamoring for more money, and that is the question to which I suppose I ought especially to direct myself now. The men who are most clamorous are composed of very different elements. In the first place there is a body of men who habitually parade their poverty and demand that the Government or somebody else should be all the time doing things for them which they ought to do for themselves. I assume that that condition of men is not peculiar to North Carolina. Then we have, in addition to that, men who are engaged in all sorts of business, and who really, honestly, and legitimately do feel the want of better banking facilities, and without analyzing that want in a general way they say they want more money.

Now I take it that really and legitimately means not necessarily more money, not necessarily cheaper money, but better facilities for the transaction of business, and facilities for the transaction of business more easily and more cheaply. And we are all agreed, I think, that these facilities can be secured only by the inauguration and establishment of such a banking system as will make it possible that the people be given those facilities. It is perhaps to our discredit that the records show that the per capita distribution of banking capital in North Carolina is so small; but I want you to believe that that is not entirely due to our poverty or our want of thrift or our general worthlessness. It is a fact that while our banks have not grown, have not increased, we have developed on other lines. We have developed many very creditable industries in many lines. In cotton mills alone we have gotten to a point where Massachusetts and Rhode Island will even take notice of us if they meet us on the street.

Mr. CAPRON. That is unfortunately true for Rhode Island.

Mr. FRIES. I do not think it is unfortunate even for Rhode Island, if the gentleman will pardon me, because it is one of those natural developments which will adjust itself, and there is room for us all.

Now, the particular question for us to consider, and for you gentlemen to decide, is how to correct that trouble for us upon a just and proper consideration of the causes why it is so. I suppose it is proper, as a representative of the South, in presenting that particular phase of local wants, that you will allow me to express myself upon the ground of individual opinion.

Lack of Banking Facilities in the South.

I take it that the lack of cheap and convenient banking facilities in the South is absolutely and entirely due to the lack of sufficient competition in that line of business down there. I do not care where it is, cheap service will only be given if the service is sufficient and ample, and we lack that sufficient and ample competition. The only palpable reason, I think, why we lack that competition is that other lines of business are more attractive, by reason of greater profit to be derived from them, and perhaps greater security than banking, and hence what capital we have and what capital comes to us from abroad goes into other lines rather than into banking. We have not had an increase of banking capital and facilities commensurate with our increase in business.

Mr. JOHNSON. You think the business that you have there would be a basis for a good banking system?

Mr. FRIES. Business is growing. Statistics will show, and I am prepared to give evidence, that our country has progressed in many direc-

tions, and notably in the organization of cotton mills, which is a matter of common information and common report; and these cotton mills have been built largely by home enterprise and home capital. The prime reason why our home capital and home industry have gone into the cotton mills and not into banking is that they have been promised better returns in the cotton mills.

Mr. JOHNSON. But the objection is frequently made that no system of banking that can be devised will bring business to a country where there is no business; that the carrying on of a bank presupposes business for the bank. What I want to find out from you is whether you have the business there for these banks.

Mr. FRIES. It would be presumptuous in me to claim that we have such a volume of business already established as the more wealthy and more advanced communities. But it is a fact beyond controversy that we have a growing and increasing business, and I take it, Mr. Johnson, that the true proposition is that a good banking system both makes and serves business. While we have some way of getting along with what facilities we have, we feel that it is not as good a way as we ought to have for the business we now have. We feel confident we would have more business, and more profitable business.

Mr. MITCHELL. How many banks have you in your particular section now? How many banks in the community of 20,000 population of which you speak?

Mr. FRIES. In my town we have two national banks and one trust company, with a combined capital of \$450,000. Only three banks.

Mr. FOWLER. What are the deposits?

Mr. FRIES. The deposits are about \$800,000, roughly; but I want to qualify that. When I say we have that proportion of capital to deposits in our Winston institutions, I want to say that that is not a fair measure of the ratio of capital to deposits in the banks generally throughout the South. It is not a fair estimate, because, as I stated, Winston is the seat of the largest tobacco manufactories in the South. We have advantages which our neighbors do not have, and the rule in the South is that deposits are much less than the capital of the bank. In many instances deposits are a very small part of the face of the capital upon which they can do business. We are exceptionally well situated in that respect in our community.

Mr. McCLEARY. That is, the deposit habit has not been acquired?

The CHAIRMAN. It is not possible?

Mr. FRIES. Both. The capital that is there is actively employed right up to the handle by the men that are in business. Many of them, more than in cities, use a bank simply to keep their books for them.

Mr. HILL. Will you allow me, at this point, to state the banking facilities of the town in which I live [Norwalk, Conn.], which also has a population of 20,000. We have five banks with a capital of \$740,000 and with deposits of \$990,000, and also two savings banks, in addition, with deposits of \$4,000,000.

PREJUDICE AGAINST BANKS.

Mr. FRIES. It is a fact, as suggested by Mr. McCleary, that as you get out of the towns where there are manufacturing industries the habit of bank deposits hardly exists. Our country people do not deposit in banks. I do not mean to say that they have no money. There is more money there among the country people than they will admit, but they have got it at home. I do not want to be lengthy, but on that

point, because it is quite an interesting point, I would like to illustrate. A director of our national bank told me quite recently that a countryman had come into his store a little while before with a tin bucket. My friend keeps a little general retail store. The countryman came in with his bucket and sat down, and said nothing while there was anyone around. When the others were gone he said, "Mr. Griffith, I have some money here in this bucket that I want you to take." Mr. Griffith replied to him, "I do not want to take the money." The countryman continued, "I have this money, and I don't want to keep it at home. It is not very safe there, and I would like to lend it to you?" "How much have you," said Mr. Griffith. He had \$300 in silver which he had brought into town in a tin bucket. The storekeeper said again to the countryman, "I do not want your money. Go and deposit it in a bank." "No; they are saying so much about banks that I do not want to have anything to do with them, and I would like you to take my money." That is hardly a typical instance of the character and habits of our people, but it is one instance, and there is enough of that storing away of money in tin buckets; there is enough of antagonism to banks, fostered by men who do not know anything about banks or banking, to create a good deal of prejudice.

While I am speaking of that prejudice, though it is a little outside of the subject, I want to give this thought, which has been in my mind lately. I believe that a good deal of the prejudice against banks, and especially national banks, comes from the idea that is prevalent among the people, that that is money which ought to be used at home, but which under the system has been locked up in bonds and put somewhere else. Now, I do not mean to say that is an objection well founded, but I believe it exists and I believe it is a very potent cause of the prejudice that exists against banks.

Mr. MITCHELL. Is there not a prejudice against them from the idea that they make too much money?

Mr. FRIES. Yes, sir; there is the popular idea in the country that a bank is a mint, and that a banker has nothing to do but to lend all the money that anybody asks for. I strike the idea, not only among our rural population but among a great many people who are well informed, that the principal function of banking is lending money, and that they have it in their power to lend any amount of money. Of course we know that that can not be so. A bank can only loan what money it has in the shape of capital, what it gets by reason of legislation, what it gets by reason of its own obligations to its depositors. It can not lend any more money than that, and it can not lend all of that, because of the inexorable laws of safety and the statute laws.

BANKING NOT PROFITABLE IN THE SOUTH.

Mr. MITCHELL. You have stated that you are also a banker?

Mr. FRIES. Yes, sir.

Mr. MITCHELL. Do you find that the money you have invested in your bank is so enormously profitable as it is generally thought to be?

Mr. FRIES. It is a fact that no bank can live under the usury laws, such as we have, in competition with private investment of capital, unless it has large deposits on which to live. The great city bank, with deposits of from one to more than fifty times its capital, like the Chemical National Bank of New York, can live in spite of conditions, because such a bank has the money to do it on. But in the South we are situated differently. While in the community in which

I live, as I have already said, we are exceptionally well situated in that respect, yet in the South generally we have not the deposits on which to make money. It costs us a great deal to do business and lend money as against the lending of money by private individuals. The bank must be properly housed; it must be properly officered; it must be at the expense of stationery and postage and a thousand other things.

Mr. COX. I live in the South. Do you know of a single national bank in the South—or an institution conducted like a bank—that has gone into voluntary liquidation?

Mr. FRIES. Yes, sir.

Mr. COX. Where was it?

Mr. FRIES. In our town—in Winston.

Mr. COX. That is one instance. Now, can you call to mind another?

Mr. FRIES. Well, I have no doubt I could.

Mr. COX. Did you ever look at the Comptroller's report locating the banks that have gone into voluntary liquidation? I am a banker, too, and I think it very profitable business.

Mr. FRIES. I wish I lived in Tennessee.

Mr. COX. I will invite you down.

Mr. FRIES. Gentlemen, I can only give you in that connection my private opinion, founded on an experience of some years. My experience is that banking in North Carolina is not profitable enough to make it attractive to capital. I give that as an opinion without qualification. It may be possible that in Tennessee the banks are able to lend and do lend money at higher rates of interest than we do. It may be that they are better situated with regard to deposits, and so forth.

Mr. JOHNSON. What is your legal rate of interest?

Mr. FRIES. Six per cent, and we lend at 6 per cent.

Mr. COX. And you discount at what rate?

Mr. FRIES. We lend and discount at 6 per cent.

Mr. MITCHELL. But at what rate do you discount?

The CHAIRMAN. A man has the right to buy a note at any price that he puts on it. The rates down there are about 8 to 10 per cent.

Mr. COX. About 8 per cent. In my part of Tennessee it is about 8 per cent on discounts as a rule, and as you go west toward Memphis and across the Mississippi River into Arkansas it is higher.

Mr. FRIES. Do you have a usury law in Tennessee?

Mr. COX. Yes; it is the same as the law in North Carolina. I think we got it from your State.

Mr. FRIES. We are a law-abiding people.

Mr. COX. Well, I do not believe you are ahead of us in supporting the law.

Mr. FRIES. I wanted to say that the usury law is not broken in North Carolina.

Mr. COX. Are you aware that the Supreme Court of the United States decided that upon a regular discount you can buy a note like anything else?

Mr. FRIES. I know that is so, but, gentlemen, we do not have that kind of paper for investment in our State. That is not one of the habits of our people. We do not have any note brokers. We have to loan direct, and, unfortunately, when we do loan, in a majority of the cases, it is not a loan which goes to the credit of the borrower on deposit so the bank has the use of the money, but in a large proportion of the loans the money goes out of the bank in actual cash in some form. My experience is that it is very difficult in North Carolina to make 6 per cent on bank stock with such a security as is necessary for any business.

I apprehend that no one will question the proposition that one of the greatest elements of safety in banking is that it shall be profitable, so profitable that the bank can lay aside a reasonable and safe amount of surplus to provide against contingencies and inevitable losses, which any such business must meet.

Mr. COX. The compilation I want to call to your attention I now have in my hand. It is from the report of the Comptroller, which I think is good authority. This is private banking. I see that in the State banks and private banks there is \$228,000,000 of capital, and that they have made \$102,000,000—I am giving round figures—on that investment.

Mr. McCLEARY. In how long a time?

Mr. COX. It does not give that.

Mr. NEWLANDS. Is that surplus?

Mr. COX. That is surplus and undivided profits. I think that is a pretty good dividend. Do you know a bank that has failed to pay its dividends?

Mr. FRIES. Yes, sir.

STATE BANKS BEFORE THE WAR.

The CHAIRMAN. The wealth in your State in 1860 and last year was the same—\$361 per capita. The circulation in 1860 was \$5.64 per capita, and to-day it is 36 cents per capita. Your banking capital in 1860 was \$6.67, and to-day you have \$1.15 only of national-bank capital, while the wealth of your people is the same. As I have said, you have only \$1.15 of national and \$2.67 per capita of State bank capital, making \$3.82. My point is that it is wholly because the banks are not allowed to issue a true banking currency. Now, if you issue the same amount of currency to-day that you did in 1860 you would have, in round numbers, \$14,000,000 of actual working capital in your State—more than you have got to day—at the same per capita that you had in 1860, when it is perfectly evident, the slaves being free now, that the currency you carry in your pockets would be very nearly double what it was before the war or very much more at any rate. You have now only about \$600,000, so the State is robbed by the law of \$7,000,000 currency upon that basis. [See Table I, page 374, and Table K, page 380.]

Mr. FRIES. I would remark in that connection that, while it antedated my personal experience, I believe it is a fact, from my information, that North Carolina did have a quite satisfactory and quite safe and quite ample State-bank system preceding the war.

The CHAIRMAN. Let me add there that New England banks redeemed in Boston and at their counters, and their bills were sold at a premium. They had about 13 per cent in specie out in circulation. Virginia had 23 per cent in specie, practically, and the banks redeemed only at their own counters, and their notes sold at a discount. If your State had redeemed at some commercial center your notes would have sold at a premium, as well as Massachusetts and Louisiana notes.

Mr. FRIES. Some of them did, at any rate.

I believe it is a fact, gentlemen, that the tradition as to the satisfactory character of North Carolina State banks is the principal cause of the demand among our people for the reestablishment of State banks again. I do not approve of it. I think that system was antiquated. If I remember rightly, our law required that every bank should have a legal reserve of 33½ per cent of the notes they issued, but there was no requirement for Governmental supervision, and the consequence is that

I have been unable to find any satisfactory information and statistics as to the actual history of the State-bank system in North Carolina prior to the war.

The CHAIRMAN. I can give you the amount of specie. You had \$11.77 of specie to every dollar of circulation in North Carolina. It averaged that.

Mr. FRIES. It varied, because the banks were chartered by special acts.

The CHAIRMAN. I am not speaking about what the law required, but stating the actual fact from the records.

Mr. FRIES. And the fact was that the larger banks—those whose bills sold at par or above par—by their charters were required to hold a large specie reserve and did so. The Bank of North Carolina did so. It was a very successful institution, and as a matter of my own personal experience, I know that their bills came through the war and were sold after the war at a very decent per cent of their face.

Mr. McCLEARY. Will you please repeat that statement?

Mr. FRIES. The bills of the Bank of the State of North Carolina, which was run by Mr. Mordecai and was a strong bank and a very popular bank, to my certain knowledge, after the wreck and ruin caused by the fall of the Southern Confederacy, had a considerable value and were sold at a good price. My recollection is that I sold some of them in the settlement of my father's estate at certainly not less than 25 per cent of their face value.

Mr. McCLEARY. And after the Government issues had gone to nothing?

Mr. FRIES. Yes, sir.

Mr. JOHNSON. Would your people be satisfied to relinquish the idea of State banks of issue and accept national control if they could get the same advantages under national control that they could under a State-bank system?

Mr. FRIES. There are a great many men for whom I could not speak, because we do not train together, but I believe that there would be enough of us who would prefer the national system, coupled with those who would be willing on a general average to take one or the other, to show a very large and decided sentiment in North Carolina for a national system, with such privileges as we think are necessary for profitable banking.

The CHAIRMAN. If you could have all the liberty of the old State banking system, issuing notes to par, and have those notes guaranteed as they are to-day by the Government, and the inspection of the bank, etc., all under the liberty of the State-bank system, would not that meet your view?

Mr. FRIES. Yes; I think that would be satisfactory.

The CHAIRMAN. I want to call your attention to the fact that Vermont was allowed to issue two to one of its capital in bills. There was no provision as to coin in their law except this: That they should keep a certain balance in a specie-paying bank, but the fact that the Boston banks compelled them to redeem their notes in Boston as well as at their own counters enabled them to circulate 112 per cent of their capital, and their bills were just as sound as the bills of any bank. Now, in North Carolina to day you are only loaning 87½ per cent of your capital and deposits, which furnish all the assets of the bank to bank on. In 1856 you loaned 112 per cent, and you could loan then as much cheaper than now as 87 is less than 112.

THE DEMAND FOR FREE COINAGE OF SILVER.

Mr. JOHNSON. What would be the effect on the sentiment of your people with respect to their demand for the free coinage of silver at the ratio of 16 to 1 if banks of the character indicated by Mr. Walker in the question he addressed to you a few minutes ago were established among them?

Mr. FRIES. That is beyond my capacity to answer. I believe that a good many of the men who are demanding the free coinage of silver at 16 to 1 now in North Carolina would not be satisfied more than a week if our friends would give them \$16 for every one dollar they have got now. I venture to say further that a good many of those men have not a dollar that they could put up on the blackboard to submit to that process of multiplication, and for that reason I am not able to say that all those people would be satisfied. On the other hand, I am convinced that many of them would be.

Mr. JOHNSON. I am speaking about these intelligent, sensible men in your State who now are advocating the free coinage of silver at 16 to 1; whether or not they would regard and accept the establishment of a safe and elastic bank-note circulation among them as sufficiently responsive to their demands.

Mr. FRIES. It would satisfy a great number.

Mr. FOWLER. It would satisfy the best sort in the State, such as yourself and Mr. Carr, and that class of men?

Mr. FRIES. I will not speak for Mr. Carr. I will speak for myself. I never understood his position. I know him very well.

Mr. FOWLER. He has recently said that would satisfy him.

Mr. JOHNSON. What I am trying to get at is whether the demand is for free coinage of silver at 16 to 1 or for more money which they consider to be good.

Mr. FRIES. I am thoroughly satisfied, Mr. Johnson, that the demand for the free coinage of silver is not indigenous to North Carolina.

Mr. HILL. It is a political proposition under which a party is seeking to obtain power, and not a business proposition.

Mr. FRIES. And it is accepted, to my certain knowledge, by a great many men—good men, too; as good as the best—who are at heart just as much sound-money men as I am. They accept it as a political question, because it is in their party platform, and they accept it further, if you will allow me to say so, because in their hearts they do not believe in the declaration of the Republican party for what they believe is the truth as much as I do. That class of men believes that the enunciation of the St. Louis platform on the gold question was no more to many Republicans than their acceptance of the free-silver doctrine; and unless you will disabuse them on that subject I do not see any hope for North Carolina.

Mr. FOWLER. That is, unless we take the position of supplementing by broad legislation the declaration of the gold standard? That is what you mean?

Mr. FRIES. Yes, sir; let me repeat that, if I may, because I think it is a true exposition of the mental state of many of our people. They have accepted the doctrine of 16 to 1 not because it was a matter of conviction with them, but because it was a plank in a political platform for which they were in the habit of voting—because they were in the habit of voting in that party. They have no confidence in the sanctity or honesty of political platforms. They do not believe—and they are good men, too—that if Mr. Bryan had been elected we would have had

free coinage of silver at 16 to 1. I have heard them say, several times, "You fellows are making a big fuss about nothing; we will be as safe from the free coinage of silver under Bryan as we will be if the Republicans are elected." Many of them did not believe that the free coinage of silver would be established if the Democrats were elected.

Mr. FOWLER. They did not believe it would be safe if we had free coinage of silver, did they?

Mr. FRIES. They did not believe the country would be subjected to that danger. On the other hand, with that want of faith in the seriousness of political pledges as a potent influence in their minds, they did not believe that the gold plank in the St. Louis platform meant anything.

Mr. JOHNSON. What would be the effect of supplementing that doctrine with legislation whereby there would be conferred on the people down there the privilege of issuing circulating notes upon their commercial assets, under national control, giving them such a volume of currency as would enable them to carry on their business under national control, and with the guarantee system?

Mr. FRIES. I can not forecast what would be the effect when it came to framing another political platform and the progress of another political campaign; but this much I do know, that it would, to an unspeakable degree, strengthen the hands of us who have stood up, in small numbers but earnestly, for what we believed was the right.

Mr. JOHNSON. Let me try to make it plain. It is my idea that the demand for the free coinage of silver at 16 to 1 in the South is simply a demand for more money.

Mr. FRIES. More money facilities.

Mr. JOHNSON. And banking facilities. If there is now established down there, under national control, a system of banks which will permit the issuing of circulating notes upon commercial assets, with the guarantee-fund system, and which will give them a sound, safe, and elastic currency to enable them to do business and develop their country, will that not be the deathblow of their declarations in favor of the free coinage of silver at 16 to 1? Am I right or not?

Mr. FRIES. I think it would have a very large and strong influence; but I would hesitate to express a very decided opinion as to the result, because politics in North Carolina are very much mixed.

The CHAIRMAN. Let me supplement something to finish that idea. The theory upon which Mr. Johnson is asking his questions, I apprehend, is that in the long run—you are not talking about to-morrow and next month—the sound, sensible, wise men in our country control its affairs. It is only in exceptional cases that the other men have control. His point is as this thing works and the influence of those men is felt, whether that would settle the question?

Mr. JOHNSON. That is what I am driving at—whether they would not be satisfied with the gold standard.

Mr. McCLEARY. If they were sure that meant the gold standard.

Mr. FRIES. Yes; if that state of affairs led to the political union—the union on economic lines—between the sound elements of both parties, as I believe it would, it would inevitably have that result. I said before that the political situation was mightily mixed in North Carolina, and the solution of these matters would have to be predicated upon such a plan and such a development as would unite Republicans like Senator Pritchard and Mr. Holton, our present district attorney, with the sound money Democrats who left their party on this issue before.

Mr. NEWLANDS. Allow me to interrupt this delightful symposium over the gold standard. Allow me to ask a few questions.

The CHAIRMAN. I am not asking questions on the gold standard, and shall not through this whole discussion, but I also want the floor occasionally.

You said that when your people went to a bank to get a discount their circumstances were such that they did not leave the proceeds of the discount on deposit, but had to take it in the shape of bills, and went home.

Mr. FRIES. Very largely; yes, sir.

The CHAIRMAN. That the present system depletes the loaning capacity of the banks by precisely the sum of money which is granted them in the loan. Under the old, true banking system, the taking of that currency and going home does not deplete the wealth of the banks by a fraction. It is simply taking the note of the bank in place of the individual note, and they have the same amount of capital to lend that they had before, up to the extent that they can do it.

I wish to call your attention to these statistics. In 1856 the percentage of currency to deposits was 522 per cent. That is, they did not leave their money on deposit, because they could not. Those people could not use checks and drafts to do their business with. To-day it is only 14 per cent. That is the condemnation of the present system. While the percentage of currency to loans and discounts in 1856 was 50, to-day it is 11. Those facts are all that is wanted to show the terrible operation of the present banking system.

DECISIONS IN THE COURTS CONCERNING BANKING.

Mr. SPALDING. Inasmuch as many of the gentlemen here are national bankers, and are supposed to know the law—and we are supposed to know the law whether we are bankers or not—I want to call attention to several decisions of the courts in regard to national banks, in which they are strictly prohibited from the purchase of commercial paper. I will read from the Comptroller's report containing the syllabus of some of the decisions. I read from page 326, in the report for 1896:

1. A national-banking association can not deal in stocks. The prohibition is to be implied from the failure to create the power.

First National Bank v. National Exchange Bank (92 U. S., 122).

2. A national-banking association can not purchase negotiable paper.

Lazear v. National Union Bank of Baltimore (52 Maryland).

First National Bank of Rochester v. Pierson (24 Minnesota, 140).

Farmers and Mechanics' Bank v. Baldwin (23 Minnesota, 198).

That is the law ever since the national bank institution has been in effect, unless changed by a later decision.

BUSINESS CONDITIONS IN NORTH CAROLINA.

Mr. NEWLANDS. You were speaking of conditions in North Carolina and the public feeling regarding the money agitation. Are present conditions prosperous in North Carolina as compared with conditions prior to 1893?

Mr. FRIES. How long prior to 1893?

Mr. NEWLANDS. Well, two or three years prior to 1893?

Mr. FRIES. I would not like to draw a comparison with that particular time, Mr. Newlands, because from 1889 to 1893 we had a good deal of unnatural, and what proved to be ruinous, real-estate speculation in North Carolina, and notably so across the line, in southwestern Vir-

ginia. I would not like to draw any comparison between those dates without serious qualifications. I think I can say business conditions in North Carolina to-day compare very favorably with the times antecedent to that unnatural expansion and land boom business.

Mr. NEWLANDS. They compare favorably, you think?

Mr. FRIES. I think they do.

Mr. NEWLANDS. I will ask you this further question: You find that this question of the money agitation rises and falls with the condition of the country as to prosperity or distress?

Mr. FRIES. Yes, sir.

Mr. NEWLANDS. You find it abates as times improve and intensifies as times grow harder?

Mr. FRIES. I think so.

Mr. NEWLANDS. It is an expression, then, of the discontent of the people in hard times?

Mr. FRIES. I think so.

Mr. NEWLANDS. Without much reflection as to the principles of sound monetary science, is that the idea upon the part of the people at large?

Mr. FRIES. Well, perhaps it would be presumptuous for me to say they do not reflect. They do not reflect on the same lines as I do, certainly.

Mr. NEWLANDS. We have recently had quite a rise in the price of wheat and farm products in this country, which has in a measure restored the buying capacity of the farmer throughout the country. Suppose the normal production of farm products in the countries that constitute our competitors should be restored, and these farm products go back to the old price, or approximately the old price, do you think this monetary agitation, then, would be intensified?

Mr. FRIES. Well, sir, that is assuming a state of affairs to-day which I am not prepared to admit, and I would, therefore, not like to answer it categorically.

MORE MONEY OR MORE CREDIT.

Mr. NEWLANDS. I will not press for an answer, then. Is the demand of your country down there for more money or for more credit?

Mr. FRIES. Well, they say more money.

Mr. NEWLANDS. What do you say?

Mr. FRIES. As to the real need?

Mr. NEWLANDS. Yes, sir.

Mr. FRIES. I think the real thing is probably not so much more money, but certain better credit facilities, and more than that, facilities which are given to a people by banks, which do not come under either head, exactly. We have money loaned by private individuals now, and it makes no difference, so far as the volume of money is concerned, whether it is loaned by individuals or loaned by a bank; but it does require a banking establishment to give people facilities for exchanges, to give them facilities for the easy interchange of one kind of currency for another, or currency for exchange, or exchange for currency, and that sort of thing, which I think is the real need of our country now.

Mr. NEWLANDS. Very well; there is no difficulty about establishing banks there now, under the law, is there?

Mr. FRIES. None whatever.

Mr. NEWLANDS. You think certain inducements ought to be held out for the organization of banks, in order to grant these facilities. Is that correct?

Mr. FRIES. Yes, sir; and to compensate them for the service that they do to the public.

Mr. NEWLANDS. And that additional inducement should be permission to issue against their bank assets a certain amount of notes which will facilitate exchanges among the people. Have I the correct idea?

Mr. FRIES. That is part of it; yes, sir.

Mr. NEWLANDS. That is one of the inducements. In other words, you wish currency facilities that will take the place of money in the actual exchanges?

Mr. FRIES. I do not think that is quite a fair deduction. I would not state it quite that way.

Mr. NEWLANDS. Well, I understood you to say that it would be difficult to establish banks of deposit there, and to rely upon deposits alone, because the people are not in the habit of depositing money, for one thing. Is that the only reason, or is it because they have not the money to deposit? Is the latter partially true?

Mr. FRIES. Both reasons enter into it.

Mr. NEWLANDS. To the extent that money is lacking for deposit, or to the extent that it is withheld from deposit by people who have not confidence in banks, or prefer other methods of business, you propose to increase the exchange facilities of that country by issuing bank currency?

Mr. FRIES. Mr. Newlands, will you allow me to enlarge a little on that line?

Mr. NEWLANDS. Certainly. You may answer the question in any manner you wish.

Mr. FRIES. It is on that line exactly. As I see it, it is not so much a question of what is technically called money or currency, but currency in its broadest acceptation, which includes in the currency of the country, in the media of exchange, the whole system of drafts and checks, and our correspondence, and that sort of thing. I apprehend that that is what we need. It is not so much a scarcity of circulating medium with us. We would like to have more of that; I would like to have more in my pocket now; but it is not so much a scarcity of circulating money as it is a lack of facilities to effect these general trade exchanges, which involve the keeping of bank balances elsewhere, and the collection of drafts, and that sort of thing. I think that is the real need of our people, and it is for that reason that I have said that money loaned by private individuals does not serve the needs of the community as it would if it was invested in a bank which could give these exchange facilities. Do I make myself clear?

Mr. NEWLANDS. Yes; under existing law there is no difficulty at all, so far as the law is concerned in establishing anywhere in the South a bank of deposit which shall receive deposits, and which will issue credits based upon these deposits, keeping the lawful reserve of 15 to 25 per cent.

Mr. FRIES. It is 15 per cent.

Mr. NEWLANDS. And thus giving to every dollar of deposits of ready money, of real money, in the bank, the efficiency of five or six dollars through this deposit and check system. There is no difficulty in that now, is there?

Mr. FRIES. I suppose not.

Mr. NEWLANDS. So far as the law is concerned?

Mr. FRIES. So far as the law is concerned.

Mr. NEWLANDS. But you wish to induce the establishment of these banks by going a little further and allowing the banks to issue currency against the bank assets. Now, I want to ask you one thing.

THE BARING FAILURE.

You have spoken of the distress that followed the Baring Brothers' failure. The Baring Brothers were a bank, were they not?

Mr. FRIES. A banking house; yes, sir.

Mr. NEWLANDS. That failure and the general prostration which followed it throughout the world was the result of lack of good management of bank managers in the extension of the credit system, was it not?

Mr. FRIES. I would not admit that. I am not very familiar with the private affairs of Baring Brothers, but my general information is that it was not the banking department of that house that caused the failure, but the fact that they and their customers went into venturesome schemes.

Mr. NEWLANDS. But all those things were promoted through that bank, were they not?

Mr. FRIES. I presume that they were, but I do not consider that that sort of speculative business was a legitimate part of the banking business of Baring Brothers.

UNDUE EXTENSION OF CREDIT BY BANKS.

Mr. NEWLANDS. Banks, then, sometimes do what you regard as illegitimate business?

Mr. FRIES. I presume they do.

Mr. NEWLANDS. They sometimes extend credit unduly, do they not?

Mr. FRIES. Yes, sir; and so do merchants.

Mr. NEWLANDS. In times of prosperity they are likely to run their bank reserve pretty low in their eagerness to make loans, are they not? That is the inclination when there is no cloud in the sky?

Mr. FRIES. I think the converse is true, that in times of prosperity banks run stronger; that is, they hold larger proportionate reserves than in times of stress.

Mr. NEWLANDS. That is your idea, is it?

Mr. FRIES. Simply because they have more business to do it with.

Mr. NEWLANDS. Now, you heard the other day the statement of the former Secretary of the Treasury that by the check and deposit system \$100,000 of capital in a given bank could be expanded into \$1,000,000 of deposits; did you not?

Mr. FRIES. Yes; I heard it.

Mr. NEWLANDS. So that the ten or fifteen or one hundred people who held those deposits would have the right freely to check against the bank to the extent of \$1,000,000 where there was only \$100,000 in bank?

Mr. FAIRCHILD. Not against that bank.

Mr. NEWLANDS. And the reserve banks, I mean. You understood that, did you not, Mr. Fries?

Mr. FRIES. Yes, sir; I think I did.

Mr. NEWLANDS. Now, take a case in ordinarily good times, where the check and deposit system is pursued to that extent, and \$1 is made to run so rapidly as to give it an efficiency of \$10, and assume, then, there is some financial difficulty in England, such as arose from the Baring Brothers' failure, and I ask you what is the impulse of the managers of that bank as soon as they hear of difficulty abroad that is likely to affect the finances of this country and precipitate, possibly, the selling of American securities and the withdrawing of American gold.

Mr. FRIES. I did not understand Mr. Fairchild to say that that was the condition which, in practice, would have existed. I would say it never would exist.

Mr. NEWLANDS. I understood him to say it could be done.

Mr. FRIES. Yes; but I did not understand him to say it ever would be done. (To Mr. Fairchild.) Did you say that?

Mr. FAIRCHILD. I say that is a possibility. My point there was that the danger of undue expansion was not through the note system, such as is proposed here.

Mr. FRIES. Will you allow me to give an illustration on that point? I have an acquaintance in Roanoke, Va., who was a furniture dealer and who had a furniture store there, who became deeply interested in the real estate boom which swept over that country some years ago, and not only struck Roanoke, but Radford, and Glasgow, and Basic City, and Bluefield, and many other places. To my certain knowledge that gentleman did a tremendous business. I do not know how many times he did trade for the same piece of property on paper, but many, many times, and he always had a profit, and as a matter of fact he listed an income of \$100,000 per year profit from his real estate transactions. He failed with that stock of furniture in his possession, just about the same amount of furniture that he started in with, and all the profits that he had honestly sworn he had made at the rate of \$100,000 a year, proved to be purely imaginary. I take it that what Mr. Fairchild proposed to show was that it was not a question of bank circulation to do that sort of wild, speculative business. That it could be done on bank credit by individuals, customers of the bank, but that no banks do that. Their customers do it if it is done.

Mr. NEWLANDS. But the banks give the facilities to the customers for doing it in time of prosperity—in boom times?

Mr. FRIES. I do not believe in that particular time the banks of Roanoke had anything to do with it, and my friend, Mr. H. S. Trout, president of the First National Bank of Roanoke, went through that thing safely, with his friends and customers around him falling like autumn leaves. That was under this sort of a system, but the First National Bank was not affected.

The CHAIRMAN. Look at Table BB, on page 441 of the Hearings and Arguments of the Committee on Banking and Currency, 54th Congress. That table is the most significant of any that has ever been prepared.

Mr. NEWLANDS. Understand, I do not contend that every bank extends its credits to the extent indicated by Mr. Fairchild; but we all know that the effect of a check and deposit system is to give the possibility of this extension, and I presume it should be so, but I dare say you will agree with me that in times of prosperity, with no cloud in the sky, the tendency is to give credit to men who apparently have assets back of them, and to reduce the proportion of the reserves to the deposits. Do you not think that is so?

Mr. FRIES. That is a thing that works two ways. I think that undoubtedly a bank management is more liberal in a time of prosperity, and, just as you say, when the banks are frightened from any cause their tendency is to contract their line of credit. But that is largely counteracted by the demand which is thrown upon the banks at such times to carry their customers over times of stress, and I believe that, as far as they can possibly do so, the banks are disposed to carry their customers over such times. I believe the one counteracts the other.

Mr. NEWLANDS. But there is a contraction of credit. That is what hard times mean, is it not?

Mr. FRIES. Sometimes.

Mr. NEWLANDS. Has it not been the contention during the past two or three years that owing to the insecurity of the times, and possibly to the insecurity as to the standard, and so forth, the country has not been permitted to enjoy its normal credit facilities, and as an adjustment of this question upon what you regard as sound-money principles you would widen and extend these credit facilities? Has not that been the contention of the sound-money men?

Mr. FRIES. I think a good many of them have so contended.

CREDIT FACILITIES AFFORDED BY THE COMMISSION BILL.

Mr. NEWLANDS. Regarding the credit facilities afforded by this bill. Now, we have the admission that the check and deposit system will continue as heretofore, and we have added to that the issue of currency, which also increases the credit facilities of the country. I want to ask you whether you do not think that in this country the credit facilities afforded by banks have reached a maximum as compared with the credit facilities of other countries. Bear in mind the statement of the Comptroller of the Currency, that 30 per cent of the banking facilities of the world are afforded by this country. Have we not in this country increased the speed at which a dollar runs in the exchanges to practically the utmost limit, as compared with other countries? And if you say no, will you point out to us a country which surpasses us in facilities for promoting the speed of a dollar in exchange?

Mr. FRIES. Well, that is a pretty broad theoretical question. I doubt whether I am competent to answer that. I would say that as a mere matter of rustic information, probably your hypothesis is true as regards the large money centers. I do not believe it is true as regards our section.

Mr. NEWLANDS. Well, can you point to any country that has superior facilities for increasing the speed of the dollar in exchanges?

Mr. FRIES. I can not quote authorities on that. I can not give you exact figures.

Mr. NEWLANDS. We are always told that we must pursue civilized methods in modern exchanges, and the assumption is that some other country must be more highly civilized than we are in that direction, for if some other country is not, then we have reached the very pinnacle of civilization. The point I want to make is whether the danger of the country, the frequent crises that we have, the frequent panics and monetary stringencies that paralyze business and ruin individuals, are not the result of an undue expansion of credit facilities, and whether the true civilization does not require that we should limit the expansion of these credit facilities and base our transactions more upon real money, recognized as such throughout the world.

Mr. FRIES. I do not know how far the committee would like to go into theoretical discussion of that sort, upon which I would be able to give merely a passing opinion. I would not hesitate to go into the discussion of it as a purely theoretical question, to the extent of my ability to treat it, but it seems to me, and I myself feel, that whatever I might say would have no value, because it is a broad theoretical question, and has no especial reference to the bill we have before us to-day.

[Thereupon, at 1 o'clock p. m., the committee took a recess until 2 o'clock.

The committee having reassembled, Mr. Fries continued his statement.]

Mr. NEWLANDS. I have only a few more questions to ask.

I understand you to say that you are unable to make use of the banks under present laws, or to extend under present laws in North Carolina and in the South generally, because it is difficult to establish a bank based on the deposit and credit system; that you need this currency in order to take the place of that system. Is that correct?

Mr. FRIES. We need that advantage, and we also need the advantage in the matter of taxation.

Mr. NEWLANDS. If you had the money down there, would you need the currency system provided by this bill?

Mr. FRIES. We would need the machinery of the banks just as much as we need it now.

The CHAIRMAN (to Mr. Newlands). You mean coin?

Mr. NEWLANDS. Yes; I mean coin.

Mr. FRIES. I will say that coin, in abundance of circulation, would not give us the advantages of the mechanism of the banks.

Mr. NEWLANDS. But if you had more coin, more actual money, down there, you would be able to establish these banks that would operate on the check and deposit system, would you not?

Mr. FRIES. I think it would go into other enterprises instead of that way.

Mr. NEWLANDS. Is it a fact that you want this currency because there is a lack of actual money down there?

Mr. FRIES. I stated early in the investigation that I did not believe it was a question of scarcity of circulation, but an absence of cheap, easy, and convenient banking facilities.

Mr. Bush asked me to state in figures for him and for myself just how this thing works from our standpoint. I will give them very briefly. In order to make use of the present facilities for banking upon Government bonds to the fullest extent allowed to a bank of \$100,000, it would be necessary to buy \$100,000 of United States bonds. To do so to-day, of the fours of 1895, would require about \$129,000. That \$129,000 at the present interest value of the bonds, which would retire the premium within the life of the bonds, would make the net interest income from those bonds about 2½ per cent. Consequently the income to the bank from that source would be \$3,548. The bank could then receive \$90,000 of circulation upon its bonds, but would have to leave with the Department \$4,500 of reserve, leaving them a net balance of \$85,500, which they could invest at home at 6 per cent interest, giving them an income from that source of \$5,130.

The CHAIRMAN. That is under what bill?

Mr. FAIRCHILD. The present system.

Mr. FRIES. The total income, then, from a purely simple banking operation like that—to that bank from its bonds and from its possible loaned capital—would be \$8,678. The taxes on that bank being 1 per cent on its circulation and a quarter of 1 per cent to cover the redemption and cost of bills and plates and everything of that sort—1¼ per cent—makes \$1,125. The net receipts of the bank, therefore, would be \$7,553. If the stockholders of that bank, instead of using their capital in that way, had invested the \$129,000 straight out on a loan upon real estate, or in any other way, at 6 per cent, their income would be \$7,740, which makes an actual loss to that institution under the present system, as over and against private loaning, of \$187. In addi-

tion to that, they would have to be at all the expense of keeping up the mechanism of the bank.

Now, my point is that in order to make the business profitable and attractive the banks must be given advantages which will put them in a favorable position as over against private lenders or investors in other enterprises.

I hesitate to make any speculation as to what amount of profit could be made upon our proposed system, because it would be a matter of pure speculation what amount of authorized notes they would be able to use and keep out under that system; but whatever they had, whether it was 20 per cent or 60 per cent or 80 per cent, would be just exactly that much advantage over the present system, which now puts them at a disadvantage of \$187 on that amount of capital.

The CHAIRMAN. I will say that I have here the tables of your banking system and of Mr. Gage's system, figuring that the bank would take out \$100,000 circulation, and 20 per cent of it of circulation in the vaults of the bank, which is figured on the country bank, and whatever circulation they took the profits would be relatively the same. I have also tables for your system and for Mr. Gage's system, showing the results after eleven years and for the first five years. I have also figured it out under the Walker bill, and we will have the figures for the Fowler bill to-night. [See Table V, page 396.]

Mr. FRIES. I suppose your tables would show that my statement of the cost is substantially correct; that there is absolutely no profit in a 6 per cent country on their circulation. I think that is a proposition which is beyond controversy.

CONGESTION OF MONEY IN GREAT CENTERS.

Now, gentlemen, the question was raised, and answered by one of my colleagues, as to what was the cause of the congestion of money in the money centers. I do not know that I can give any valuable information on that, but I will be glad to say what I believe is the reason. We all admit that the congestion of money in the great centers is a menace and a disadvantage. I believe that the prime cause of it is that there is no facility for our banks to expand and contract under the present system. In order to live at all they have got to keep their money at work all the time. It is not a question of making big profits; it is a question of existence with them. In order to live they have to keep all their available assets at work all the time. Their only resource to tide over the seasonal demands for more money is through rediscount in the New York market. The consequence is that at certain seasons of the year, notably when the cotton crop is moved, the banks of the South must rediscount in New York, and it puts a heavy strain upon the New York banks, which is unnatural, because it is not their own business that is being done. They are helping us to do our own proper, legitimate business, because we have no other way of getting those funds. It puts a stridency on the New York market at a time when currency is needed to move the crops of the South and West, and causes congestion when that money goes back to New York.

Now, if we had the right of issue for seasonal use—I do not contemplate and do not desire that this right of issue should be used to its fullest extent—if we had the right of a seasonal issue, I would hope to see it used in the most elastic way during the four months of the year

that the cotton crop is being marketed, and this money would be returned and retired from circulation during the balance of the year, so it will be there again to use again in the succeeding year. There would be no surplus, no congestion of money anywhere, because as soon as these instruments of credit—the bills of national banks—had been utilized for that purpose they would go back to their home in the natural course of business under the provisions of our bill. They would then no longer be used as cash. They are tools to be laid away for use when the next job comes.

The CHAIRMAN. Under your bill, would the bank call them cash?

Mr. FRIES. The bank would not call them cash when they came back.

Mr. FOWLER. It would not call its own notes cash.

Mr. FRIES. That is it. They are simply used until they come back. We do not require that they shall be burned up, because that would be a useless expense; but we say that they shall be put away in the tool chest. It gives us tools with which to do our work. It gives us tools which we can use economically, because now when we go to New York and ask for rediscounts the price we have to pay for them is purely a question of the cost of money in New York.

I will go out of my way a little to say that even that does not lay the burden on the people of our country, as has been suggested by some questions, because I have known instances time and again where, purely for the accommodation of their customers, our banks have paid 4 per cent and above that for rediscounts in New York and have loaned that money just as they loaned their own money—at 6 per cent. Instead of making a big profit out of it, they have had barely enough to pay them for the work they did and the risk they incurred.

Mr. FOWLER. Suppose a man brought in his bank book and handed in a thousand dollars of the bank's own notes—what would they do with them?

Mr. FRIES. That is a question of bookkeeping.

The CHAIRMAN. Your law reaches it.

Mr. FRIES. Yes, sir; but the peculiar method would be one of bookkeeping, simply. My information is received from Comptroller Eckels. I am not giving legal opinions—I am shy of them, not being a lawyer—but the present law, if strictly construed, would not allow a bank to carry its own notes as cash, but in practice it is so small a matter that they do count their own bills, like any other, as current cash. The only thing necessary in this would be to keep an account on their books showing the amount of circulation received from the Comptroller's office.

Mr. SPALDING. They do keep such an account now?

Mr. FRIES. Yes, sir; but it is charged up and never credited, because we charge circulation account with the bills we get.

Mr. SPALDING. Not until they are signed and issued, do you?

Mr. FRIES. No; but when signed and issued it goes into the account.

The practical method would simply be, at the close of business when the cash is counted, instead of charging up the cash receipts of that day in bulk to cash account, as we do now, we would make two entries, and charge other things to cash, and charge our own bills to this account we have on our book.

Mr. HILL. Just as a merchant would charge bills receivable and bills payable?

Mr. FRIES. Yes, sir; it is a matter of the simplest kind of bookkeeping.

CURRENT REDEMPTION.

Now, as to current redemption of the bills, I can not subscribe to the statement made by my good friend Judge Taylor yesterday, that redemption now amounts to practically nothing. We have a great deal of redemption to do, and we have got to do it. Our banks are practicing to-day the same kind of redemption—the interchange of all kinds of currency—as we in our bill ask that the Treasury of the United States shall practice over against its customers. It is a fact that anybody to-day who is a customer of our bank, or any other respectable bank, can at his own will, and entirely to suit his own convenience, get silver or gold or exchange or bills at his option, not at our option. Of course we might have the legal right to say we will do this and we will do that, but in practice we give a man just what he wants, and everything in the way of money he wants. All the forms of money and exchange—which is equally a medium of exchange—are to-day in perfect free exchange and redemption at the counters of every good bank in the country. There is practical redemption to-day by the banks, of the notes of the Government of the United States and other banks in gold or silver or anything else.

I believe it is a fact, further, that the redemption bureau of the Treasury Department is not a mere laundry for the cleansing of dirty bills. I can not from memory give you the exact figures, but in round numbers of the proportion of bills which come into the division of issue and redemption now about 25 per cent of them only come there for laundry purposes. The balance of them go there to make legal reserves. That is the motive which brings them there. They come back through the New York banks—the whole of them—because those banks accumulate bills which they can not use as legal reserves for their large amount of deposits, and it is necessary as a simple business measure for them to convert that money into the form of legal reserves. That redemption to-day is absolutely redemption in gold, although in a majority of cases not a dollar of gold passes.

The bills are sent from New York for redemption in large blocks, and they are remitted for in checks upon the subtreasury in New York, which can be legally utilized by those banks in their reserves. The method of redemption is that as soon as those bills are sorted out, and in a week or two weeks, whatever the time may be, a certain accumulation of bills has come about, the Comptroller will notify us that we must make good a certain amount—\$500 or \$1,000 or whatever it is. We practically redeem those notes in gold. We are obliged to redeem them in gold, but we do not send a single coin to redeem them.

Mr. FOWLER. You are not obliged to do so under the law.

Mr. FRIES. I said practically.

Mr. FOWLER. No; practically you can not be obliged, because redeeming them in lawful money is "practically."

The CHAIRMAN. He means to say that in practice they are redeemed in gold.

Mr. FRIES. It is practically gold redemption. We could redeem them in a number of different ways. We could go to the expense of sending either silver or gold there by express, or United States notes or silver certificates, or we could send the bills to other banks, which would have to be redeemed again, but in practice we send a check on New York. I make that point now simply to emphasize the fact that when we are talking about money and redemption we lose sight of the fact that the great bulk of the business of the country is done by other

media of exchange, other things which are just as effective in their operations and their uses as the actual coin would be, and very much cheaper and more convenient.

The CHAIRMAN. You redeem in products?

Mr. FRIES. (Referring to pamphlet, and addressing Mr. Fowler.) Was I not about correct as to the proportion of bills which come into the issue and redemption division for laundry purposes?

Mr. FOWLER. It is about half and half. You said about one-fourth.

Mr. FRIES. That says half and half, but I should explain that of the half which the Comptroller, or rather the chief of that division, reports as mutilated bills, only half comes in for that purpose. The other half comes in in the general remittances and it is sorted out here. It is sent in to make legal reserves.

The CHAIRMAN. They would send in their bills that were mutilated to save the double transportation. So it practically amounts to sending them in because they are mutilated.

Mr. FRIES. Yes; but of those which are sent in for redemption purposes, the other part is sorted here.

The CHAIRMAN. It amounts to the same thing in the end. •

THE SUFFOLK SYSTEM.

Mr. FRIES. If I have properly read the lesson, it is that in New England, when the bank notes were redeemed only over their own counters—

The CHAIRMAN. There has been no such time since 1824.

Mr. FRIES. Prior to 1824, then, there was very little redemption. Those people practically saw the necessity for a central redemption agency, and the result was the Suffolk system, which was a practical success.

The CHAIRMAN. An absolute success.

Mr. FRIES. I believe the lesson is that in the early days of the national-banking system, when the banks were required to redeem only over their own counters or with their redemption agents in the redemption cities, redemption amounted to but very little, and that there was a very notable and striking increase of redemption as soon as the present system of redemption at the Treasury at Washington came into effect.

The CHAIRMAN. Of the \$212,000,000 how many millions are redeemed a year?

Mr. FRIES. Now?

The CHAIRMAN. Yes.

Mr. FRIES. The redemptions to-day are different in different sections of the country.

The CHAIRMAN. But at the Treasury?

Mr. FRIES. I take it, the average of redemption is about 50 per cent.

The CHAIRMAN. Fifty per cent a year?

Mr. FRIES. Yes, sir; that is once in two years. The whole system of bank-note circulation to-day is renewed once in two years, or approximately so. New England and New York City overredeem; that is, they redeem more than one time a year.

The CHAIRMAN. How often did the Suffolk system redeem?

Mr. FRIES. About eight times a year.

The CHAIRMAN. About five times a year, as I figure it.

Mr. FRIES. Well, we will say five times. I thought it was eight times. I am speaking from memory. But the banks in my country

redeem about once in four years now. I take it that that question of rapidity of redemption is a question of the kind of business which is being done in the locality where those banks are situated.

In New England, where it is largely a manufacturing community, and the money is paid out on weekly and monthly pay rolls to the people, and is expended by them for the living expenses they have to incur the next week, or the next month, as the case may be, the circulation of that money is rapid; and that is one reason why New England to-day overredeems under the present system. In my country, where the circumstances are very much like those in Canada, it takes about four months to market the cotton crop. The money goes out into the hands of the people during those four months, and it comes in gradually during the remainder of the year for the living expenses of the people. The consequence is that with us the circulation is nearer once a year, when it would be once a month in a purely manufacturing community.

REDEMPTION AGENCIES.

Now, I heartily signed the recommendation, with my colleagues on the commission, to give the Secretary authority to appoint redemption agencies wherever the convenience, or supposed convenience, of the people demanded it; that is, in subtreasuries, of course. Personally, I see no necessity—

The CHAIRMAN. How many subtreasuries are there in the country?

Mr. FRIES. Nine, I think.

The CHAIRMAN. At what points?

Mr. FRIES. I don't believe I would undertake to say.

The CHAIRMAN. Does it not leave a part of the country practically without means of redemption—or at least, not as conveniently situated as it ought to be?

Mr. FRIES. I believe that New Orleans, or St. Paul, or Portland, Me., is just about as near to Washington to-day as the country banks in New England were to Boston under the Suffolk system.

The CHAIRMAN. That is very true. But if they can be any nearer they have a right to be.

Mr. FRIES. They may have a right to be; and, in deference to the opinion of my colleagues on the commission, I did not hesitate to sign a recommendation giving that authority to the Secretary of the Treasury, but I am perfectly honest in saying that I do not believe there is a bit of use for it, but that that work can be satisfactorily and effectively done right here in Washington, and with less expense than would be involved in a multiplication of redemption agencies, because the great trouble, the great expense, is in the clerical force required to sort out those bills; and the point is that redemption in insignificant amounts requires just as much letter writing and just as much transmission of packages and checks, and just as much bookkeeping as in large amounts, and with a central redemption agency there would be such an accumulation of bills from all over the country that those redemptions would be made in amounts that are worth while to handle.

My information is that to-day the larger near-by cities receive notice from the chief of that division once a week or oftener, because those bills come in in sufficient quantities to make it worth while. But it takes about two weeks to accumulate bills on banks in North Carolina or Kentucky or Missouri to make it worth while to call upon them to make good that amount. It is purely and simply a question of a little more clerical force to sort the bills for the whole country right at Wash-

ington, and right at Washington is where that redemption ought to be, because those things ought to be absolutely and closely under the control of the Comptroller and where the Bureau of Engraving and Printing is located. It simplifies the system, and I believe it works no hardship to the people.

Further, as regards the question of redemption. Undoubtedly it is very important that there should be a rapid and efficient redemption of bank bills, because it is only by means of that, that we really retire any superabundant currency. I am not expressing any opinion as to the sufficiency or deficiency of currency now; but if we allow an elastic limit there will be seasons of too much currency and seasons of too little currency, and the only way to regulate that is by rapid, frequent, and efficient redemption of those bills. But the motive, and the only effective motive, now for redemption is not the fear of the solvency of the issuing banks, because whenever redemption comes because of that reason things are dangerous, and the very fact that people present bills for redemption because of their fear as to their solvency is a menace to the country; but the effective motive, and the true motive, as I see it, is simply in the provision that we make that those bills shall not be a legal reserve. It is the motive now. It is the best motive that we can put upon the banks, to call upon their comrades to redeem their bills; and I think that that is one of the most important reasons why this legal reserve should be required. Apart from the question of safety, and all that, it will be exceedingly valuable just in that particular, in that it enforces the retirement of bills before the danger point is reached.

MUTUAL INSURANCE OF BANKS.

Then there is another thing. We have never yet had in a national system anything like mutual supervision of banks. We do not deposit with a bank that we think is doing business on an unsafe system, but we take their bills without discrimination because they are all equally good. But my observation has been that there is a consensus of opinion among banks as to the safety of the methods of management long before the Comptroller finds it necessary to close the doors of that bank. And if we can bind the banks together under this mutual insurance system it then becomes every one's interest to begin to put the brakes upon the banks which they know ought to have brakes applied. And I venture to say, further, that one-half the bank failures we have had would have been avoided if other banks had commenced to use a little pressure on the bad fellow before he got into too deep a hole.

The only really novel feature that we have introduced into this bill is this mutual insurance principle. We have done this in order to secure equal safety at a minimum of cost. The mutual guaranty fund of 5 per cent, contributed by a hundred banks, amounts to the same as requiring the five weakest banks to hold 100 per cent against their liabilities. The question of guarantee is purely the question of the solvency of the weakest link in the chain. The most solvent banks do not need any guarantee. They are safe anyhow. It is only the weak banks that need it. But you have got to put the same restrictions on all, and if in a given period of time the same banks would pay 5 per cent of their capitalization to absolutely guard that mortality of 5 per cent, it would be necessary to require the banks to hold a reserve of 100 per cent to make the system as safe as we make it by a common fund of only 5 per cent. It goes without say-

ing that a coin reserve requirement of 100 per cent is absolutely prohibitory. A reserve of 5 per cent is so light a burden that all banks which want to use notes at all can very well afford to contribute that amount to the fund, which they do not lose, because it is a fund simply put up and on it they expect a good return premium, just as they do from a mutual insurance company.

Mr. MITCHELL. How does a very sound bank get any return premium from that?

Mr. FRIES. Under the bill as it was written, as soon as any bank proposes to retire its circulation it deposits coin, lawful money, with the Treasury of the United States and receives the unimpaired portion of that guaranty fund.

I hope my colleagues will excuse me if I say right here that I differ slightly from them on that point again, as their preference is different from mine in that respect, and I admit that it is, perhaps, safer. The commission says that fund shall be invested in interest-bearing bonds, at the discretion of the Secretary of the Treasury, and the interest applied to successive accretions of the fund, and not be applied to current losses. It says further that any taxes received from excess circulation, in excess of 60 per cent, shall be applied to accretions of this fund and not applied to private losses. My private opinion is that the interest from the investment of that 5 per cent and the taxes in excess of 60 per cent, in any normal times, would pay the entire losses under the system, which, as one of the gentlemen has said, would not exceed an eighth of 1 per cent.

I believe if that were done those two sources of income would be ample to meet all current losses which were incurred by a failure of the assets to pay the notes.

Mr. JOHNSON. Without drawing on the 5 per cent?

Mr. FRIES. Without drawing on the 5 per cent for a penny; without any assessment to make good the 5 per cent, and in that event the burden upon the banks would simply be a loss of interest of 5 per cent on their outstanding notes, which is certainly a very light burden.

Mr. FOWLER. Do you allow them any interest on that? The Government invests it in bonds, and then it is turned over to the fund.

Mr. FRIES. Yes, they get interest on it.

Mr. JOHNSON. If a bank should draw out, its proportion is paid?

Mr. FRIES. The return premium, as insurance men would say, is paid back to them, and they have done nothing but put that much at risk for insurance in the common fund.

The CHAIRMAN. A loss of interest on it?

Mr. FRIES. Yes, sir.

Mr. FOWLER. Only that long.

Mr. FRIES. Yes, sir; they are co-insurers only while their policy runs, and no longer. It seems to me that is manifestly just.

Mr. JOHNSON. This system is the one that is in vogue in Canada, is it not—a safety-fund system?

Mr. FRIES. They have a safety-fund system there, but it is not this mutual-insurance idea that we have developed.

BANK SYSTEM OF GERMANY.

Now, as regards the question of taxation upon the issue above 60 per cent, I will answer a question which was put to someone else, I think by Mr. Newlands, on yesterday, as to what we thought the best system. The idea of taxation upon an excess limit comes, to my mind at least, direct from the present German system, and I do not hesitate to say

that in my opinion the most rational and best system of banking to-day, from a national bank standpoint, is the German system, except in certain matters of detail.

The CHAIRMAN. In what respect?

Mr. FRIES. In the fact that it is largely based upon commercial assets. It is partly used as a market for Government securities.

The CHAIRMAN. But only above the normal rate—

Mr. FRIES. Only partially. It brings in, just as we propose to do temporarily, a substratum of Government security.

The CHAIRMAN. Superadded at the top rather than at the bottom?

Mr. FRIES. That is as you count it. At any rate, they have a certain amount of Government securities. But I take it that the one original motive in this country or in any other country for basing a bank currency upon Government bonds is and can logically be none but to make a market for Government bonds.

The CHAIRMAN. That is it. It is a forced loan?

Mr. FRIES. It is not exactly a forced loan, but is an effort of the legislature to make a market for the national securities in that way.

The CHAIRMAN. The banks are absolutely necessary. You can not do business without them. They are absolutely compelled to buy the bonds, and if that is not a forced loan, then, what is the meaning of a forced loan?

Mr. SPALDING. Does that enhance the value of the bond?

Mr. FRIES. I should say so.

Mr. SPALDING. The more use would raise its value, then, would it?

Mr. FRIES. Of bonds?

Mr. SPALDING. Of anything?

Mr. FRIES. Why, yes; and the customers you have got.

Mr. HILL. If the amount is limited, you mean?

Mr. FOWLER. Silver is unlimited.

Mr. SPALDING. I was not asking a silver question; I was asking about the bond.

Mr. FRIES. They do allow issues upon pure commercial assets.

The CHAIRMAN. To what amount?

Mr. FRIES. I would rather not say from memory. Then after a bank has issued up to a certain legal limit, the Government imposes a tax of 5 per cent per annum upon the excess issues, payable monthly, and it is a historical fact that in practice, whenever there was a commercial demand for issues in Germany from the Reichsbank any time within the last twenty-three years while it has been in existence, they have not hesitated to issue that emergency circulation, to give it that name, and to pay the Government a tax on it at the rate of 5 per cent per annum.

The CHAIRMAN. What tax do you propose to put on?

Mr. FRIES. Two per cent from 60 to 80, and 6 per cent from 80 up.

Mr. McCLEARY. How has that worked in practice?

Mr. FRIES. As I read it, the fact is that those excess issues by the Reichsbank has in no instance stood out so as to be taxed except once. They are issued to meet a temporary demand of their customers and they are retired within the current month. So, if I am correct in my recollection, the bank has in no instance paid that tax except for one month. And, furthermore, it has not raised the current rate of interest in the German Empire even a small fraction.

Mr. MITCHELL. How long does it take, when a demand is made for this extra circulation, to get it out? I am referring to the German system. How many hours does it take for the circulation to get out?

Mr. FRIES. I am not informed on that, but my understanding is that it is prompt.

Mr. MITCHELL. It is immediate?

Mr. FRIES. I think they have the right to issue it immediately.

EMERGENCY CIRCULATION.

Mr. MITCHELL. Under the bill your commission has introduced here can this extra circulation be also brought out immediately?

Mr. FRIES. That was our intention. We do not say that the notes shall be printed in advance, but the idea certainly was that there would be no delay and no restraint in time upon the issue.

Mr. MITCHELL. So in case of a panic this extra circulation could be brought out any time to avert the panic. Is that the theory of the bill?

Mr. FRIES. I can not say that was the intent of the commission. It was not our intention to provide for panics, but to provide against panics.

Mr. JOHNSON. The wisest way to do that is to provide for panics. It comes back to the original proposition.

Mr. FRIES. It amounts to the same thing, but it was not the idea that there must be technically a panic before banks should issue the circulation, but, on the contrary, they should issue it just as soon as the business conditions call for it; and there is no better way to avoid a panic than to meet the conditions before they reach that acute stage.

Mr. MITCHELL. You know in New York City, in the panic of 1893, over \$40,000,000 of clearing-house certificates were issued almost as they were needed, practically immediately?

Mr. FRIES. Yes, sir.

Mr. MITCHELL. What I was asking was whether in the operation of your bill it would enable your banks to issue this extra circulation with such rapidity as those clearing-house certificates were issued?

Mr. FRIES. Yes, sir. We not only had that in mind, but to furnish something which would not simply pass current in the clearing house, but something which would serve the same purpose as between banks, and at the same time give the customers of the banks the same facilities that the clearing-house certificates give to the banks themselves.

Mr. MITCHELL. And as promptly?

SECURITY FOR DEPOSITS.

Mr. FRIES. Now, while we adopted, as I think wisely, this principle of mutual insurance of notes, we discussed at considerable length the question of mutual insurance of deposits as well, and while I do not now intend to speak for any of my colleagues as to why the commission took action upon that question, I want to say that in my private opinion the same principle is not applicable to deposits as it is to currency, for, except as a matter of report at stated times, there is no central set of books which will fix the amount which should be contributed to a mutual guarantee fund, and, above all that, if we would substitute a mutual guarantee fund for the security of the deposits we would destroy that motive for redemption, which I said before I esteem the one effective motive for the redemption of bills.

Mr. FOWLER. How is that?

Mr. FRIES. If instead of requiring the security for deposits to be a

reserve fund we would make it a guarantee fund in the hands of a trustee, the United States Government, there would not be that motive to keep a reserve fund in lawful money, which is the most effective agent to move the banks to make other banks redeem their notes.

Mr. FOWLER. If they could not keep the notes as a part of their reserve, and they have to keep so much reserve, the motive remains to get rid of that which is not good for anything?

Mr. FRIES. But it is.

Mr. FOWLER. If you can not count it as money, if you can not count it as a part of your assets, there is no earthly use in keeping it there, is there?

Mr. FRIES. Yes, sir.

Mr. FOWLER. What would be the object?

Mr. FRIES. Because a bank does use—I am speaking not of its own notes now, but of the notes of other banks—it uses them as instruments of exchange in the ordinary transactions of business. No bank would ever have, except for a day or two when it first opened, enough notes of its own to do its business.

It must have coin and notes of other banks for its ordinary till work, and as long as those notes are good in the redemption fund, or guaranteed by a redemption fund, the principle of safety will not induce any bank to send them in to the central redemption agency. It is the motive of getting something that they can use in their own reserves that will induce them—an efficient redemption. Do I make myself clear?

Mr. FOWLER. You spoke, as I understood you, about a reserve or guarantee fund for deposit.

Mr. FRIES. Yes, sir.

Mr. FOWLER. I do not follow you through this thing.

Mr. FRIES. I said that while it was proper to secure note issues by a mutual-insurance fund of 5 per cent, the same principle applied to currency deposits was not so desirable, because, among other reasons, it would do away with this motive of sending those bills in to get lawful money for them.

Mr. FOWLER. Why would it do that? I can not see. I can not see why it would have any effect on that. They have got to have the deposits subject to check as before, and they must pay out lawful money for the deposits when the checks come in. I can not see why, it being the fact that the deposits are secure, the notes would not go on normally as before.

Mr. FRIES. I am not saying that a conjunction of both systems of mutual insurance and required reserve would not work, but the substitution of the mutual-insurance principle as over against deposits, and the doing away with the required reserve would not work well in that respect. If I catch your meaning you still propose to require a reserve in lawful money?

Mr. FOWLER. At the banks themselves; yes, absolutely.

Mr. FRIES. While I do not say that both would not work, I was merely making the point that it would not do, apart from the question of safety, to substitute a mutual-insurance fund for a required legal reserve.

Mr. FOWLER. Oh, that is absolute. On that point you are on the question of insurance.

Is it not your observation that whenever the tremor creeps over this country the money that is really taken from these banks is taken out through fear and locked up in safety deposit boxes or taken to the people's homes and hid away, and is not that to-day the greatest draft

that is made on our currency whenever a crisis or an approach to a panic arises?

Mr. FRIES. I hesitate, gentlemen, to answer that question, because it brings in quite other considerations; but my observation is this—I am perfectly free to say what I think about it, whether it is right or not—my observation is that the underlying cause of the scarcity of currency in time of panic is the result of the call loan system of the city. Men who had obligations outstanding of such a character as they have in the big cities felt obliged to fortify themselves by getting hold of enough money to meet their call loan obligation. As a country banker I saw nothing of that sort of thing in any of my experience.

INTEREST ON DEPOSITS.

The CHAIRMAN. There was a bill drawn once to the effect that when the banks paid interest on deposits, they, the banks, should have thirty days' notice before those deposits were drawn out. Do you not think that would help the thing out a little?

Mr. FRIES. No; I do not believe in that sort of thing. I believe in corporations and individuals meeting their engagements.

The CHAIRMAN. But if they pay 3 per cent interest, the man who takes it ought to be punished for it.

Mr. FRIES. I think perhaps that is so, but still they have to pay interest on deposits as they have to pay a good many other things sometimes; but good bankers take as little money on interest as they can and still keep in good odor with their customers. I do not believe that good bank officers seek money on which they have to pay out interest.

The CHAIRMAN. Do you not think they ought to be forbidden to pay any interest at all on deposits?

Mr. FRIES. No, sir; I think it would be a good thing if they did not do it, but I do not think they ought to be forbidden to do it, because the system of savings bank and trust companies is so fully fixed in the country that we can not get around that. I do not believe that any call loan or any call debt ought to bear interest.

MAINTAINING GOLD PAYMENT.

Mr. FOWLER. How would you stop the gold from going out of this country if you did not have call loans and raise the rate when the gold went out?

Mr. FRIES. I will tell you without any hesitation what I have done. When it was necessary in my judgment to protect the currency fund of our institution I did not hesitate to go to New York and pay $1\frac{1}{4}$ per cent for gold, and I did not need it.

Mr. FOWLER. But you thought you needed it.

Mr. FRIES. Because I paid that premium and got the gold I did not need it. That is the reason I did not need it.

The CHAIRMAN. Then you did need it.

Mr. FOWLER. It, therefore, was established by your own experience or your own precaution that if the banks of this country are going to maintain gold payments for the current redemption of their notes it is going to be done at some expense to the banks, is it not?

The CHAIRMAN. I say no.

Mr. FRIES. I say no, too; because if there is any one thing that I do

believe, although I do not know it, it is the fact that there is plenty of gold in the world to do the business of the world.

Mr. FOWLER. If the country banks of this country are issuing to-day 75 per cent of the note issues of the country, it is altogether likely that the country banks are going to continue to be great note issuers, is it not?

Mr. FRIES. Yes, sir.

Mr. FOWLER. Very well. Now, under this system, which is a redemption of all notes by the United States Government, the draft of gold is going to be met from the country districts and not from the great cities, and therefore the great cities would be entirely free from any responsibility; and the Government being unable to add one-millionth part of a cent to call loans, because it never loans, are you not subjecting the banks of this country in all the outlying districts to a strain that they can not stand, and do you think it is possible for the banks to maintain gold payments, which must cost them something, while the Government is giving it away to all the world?

Mr. FRIES. I believe that includes several questions and involves several answers. I will try to answer it in a general way, not categorically.

The supplying of gold to meet the needs of any bank or to meet the wants of the customers is in no respect different from what we have to do to-day, and which we will do if we are left free to do it. If the course of exchange is in one direction we have to import currency at our expense to meet it; if the course of exchange is the other way, we have to export currency by express to supply our customers with exchange.

The CHAIRMAN. Do you mean currency or coin?

Mr. FRIES. I mean currency in its broad sense, as distinguished from exchange. We have to supply exchange on New York or cash New York exchange for them. If we are going to give them such service as a public institution must give its customers we have got to supply them with what they want, and if we can not get it in the natural course of business without expense we have to go to the expense to give it to them.

And I venture to say that as a practical question, under a gold system, the amount to be paid by the banks in order to furnish exchange facilities pure and simple will be greater than what will be needed by the coin requirements, just as to-day the expense that we are put to to provide exchange in and out, the collections and remittances and all that sort of thing, is much greater than the expense of expressage on notes and coin for the note and coin demand, because the great bulk of business, 95 per cent of it, is done by exchange.

We have to do that now; we have to provide exchange; we have to cash exchange, and will have to do that under any system; and as long as the commercial methods of the country are such that the great majority of the business, 90 per cent of the business, is done through drafts and checks, just in that proportion the expense of doing that and providing the facilities for doing it will be greater than what will come by the demand for currency.

The currency demands are small in the banking exchanges of the whole country, and that is an expense we have to meet now, and it will have to be met in the same way under any other system.

BANKS MUST MEET THE WISHES OF CUSTOMERS.

If banks live at all they have got to do it. I come back to the first consideration in the opening of my remarks, that where we are obliged to do service of that sort for our customers, if we are in business, we

have to meet their wishes. We have to supply their needs. The great bulk is that kind of business through the mails. That is the service that the banks render to the country. That is the good they are to the country, and to-day they are practically doing it without proper compensation for the services they render. In order to give those services to the country freely, abundantly, and conveniently, banks must have a reasonable and decent profit for the services they render.

LOANING MONEY ON CALL.

Mr. MITCHELL. I think you made the statement that you thought the banks ought to loan call money without interest. Is that correct?

Mr. FRIES. I would rather not criticise the systems of the New York banks. I am one of those people who do not like call loans. I think they are breeders of paucies. We can not make any call loans in our country.

Mr. MITCHELL. I was not mistaken, then, in understanding that you had expressed that sentiment. As a matter of fact you know, do you not, that almost all of the business of what are known as Wall street banks is on call loans on stock collateral, and that they are subject to be called any day, to be paid at a quarter before 3 o'clock in the afternoon?

Mr. FRIES. Yes, sir.

Mr. MITCHELL. Most of those banks will not loan on commercial paper. Therefore, if you deprive them of the right to make call loans you drive them out of business, as well as all the men who want to borrow on stock collateral, or almost entirely so.

Mr. FRIES. I admit that fully; and I admit, furthermore, Mr. Mitchell, that the question of interest on deposits, whether they be deposits for bankers or others, in large amount, is absolutely bound up with the ability, the opportunity, to lend on call at interest. But I look at this thing purely in the light of my experience as a country banker, and I would say that, in a broad sense, loans upon collaterals and call loans are things that we know nothing about and which subserve none of the commercial interests of the agricultural communities.

Mr. MITCHELL. But, as the representative of an agricultural community, you do not want to object to the municipal communities doing business in a manner which is found to be best for them and best for their customers. You must know, also, as a banker, that you could go to such a bank and borrow money at $1\frac{1}{2}$ per cent on call; that if you wanted to make a call loan for thirty days, such a loan could be made, practically a time loan, for 3 per cent. That is in the interest of the persons who are borrowing the money; and if you have securities, or any individual in the United States has securities, and he finds the rate of interest is 6 per cent in his community, he can send those securities on to New York and borrow money at 1.5 per cent on call, when it is at 1.5 per cent, which is better than for him to pay 5 or 6 per cent in his own community. So I want to make that point. I do not see that the practice of lending the money at a low rate on call is anything except in the interest of the borrower.

Mr. FRIES. Let me have the record right about that. I think I said, Mr. Mitchell, and if I did not I would be glad to say it now, that I do not pretend for a moment to criticise the metropolitan methods of doing business in that particular. I believe that they are the outgrowth of conditions that exist there, and I believe the question of paying interests on deposits and making call loans is a thing that can not be, and

ought not to be, regulated by legislation. I simply made the proposition that from the standpoint of a country banker it is not applicable, it does not come into consideration.

MAINTAINING GOLD PAYMENTS.

Mr. FOWLER. You did not seem to see the point I wanted to make, and that was this—that under the proposed system the United States Government is going to be the primary and current redeemer, not the ultimate redeemer, in case of failure, of all the bank notes in the United States. Now, some other being the redeemer, no one can take these notes to the Government and get the gold coins, and the United States Government, not being a loaner of any funds, can not in any way control the rate of interest on the street; but inasmuch as the notes will be issued necessarily by all the country banks, 75 or 80 per cent of them, your draft of gold is going to be on the country, and the Government, not being able to control the rate of interest, is going to be a free market for the entire world to go to with gold—not the cheapest market, but an absolutely free market for gold. If it was thrown upon the banks of New York to maintain the gold standard, and a draft was made on those banks as being the representatives of all the rest of the banks of the United States, they would raise the rate of interest 1, 2, 3, 4, 5, 6, or 8 per cent and stop the outflow of gold, because the merchants in London and Paris, and all the great cities of Europe, if they could lend their money at 4, 5, or 7 per cent in New York and borrow at their own homes at 1 per cent, would make money by doing so. The money would be left in New York, and none is exported until we are able to export securities or produce.

That is the weakness of our present system that you are not correcting in this bill, in my judgment, and you continue to be a free market for the entire world to supplement the gold they now have or for any other of the nations of the world to get what they want.

Mr. JOHNSON. That is an important point, Mr. Fries, and I would like to hear it discussed from your standpoint.

Mr. FRIES. Can you not put that in two or three direct questions?

Mr. FOWLER. How are you going to protect the gold reserve of the United States against the markets of the world?

Mr. FRIES. I do not know, Mr. Fowler, whether I am competent to answer the question in a few words. The weakness of our present situation comes from the fact that the whole burden of furnishing gold to exporters falls upon us, and we do not furnish gold to Europe for fun; we furnish gold because our business men want it, and for no other reason. Of course business may be simply a brokerage business, but, to come back to what I said before, whenever the Government or a banking institution sets itself up to do a certain line of business it must do just what its customers want and need to have done.

Now, the weakness of the present situation has been, in the first place, that we have had this bugbear of \$100,000,000 of gold, which was supposed to be by construction of law a reserve, which was to be kept intact. I have no sympathy in the world with the ideas of people who have a spasm whenever the reserve is encroached upon, whatever it may be. What is the reserve there for but to meet demands? What is the use of the \$100,000,000 of gold that the Government has been supposed to keep on hand to meet a gold demand with except to supply that demand? I do not see what occasion there was for the tremendous

convulsions the country went through when that fund went down to \$50,000,000.

Mr. FOWLER. What about when it went down to \$40,000,000?

Mr. FRIES. What if it was all used?

Mr. FOWLER. There were orders enough in, that would have been executed within three days, to have exhausted it. Then what would have become of the Government, with demand obligations still being presented?

Mr. FRIES. Then the Government would have had nothing but what is behind the balance of its obligations—its own credit.

Mr. FOWLER. If these greenbacks had been presented the Government would have repudiated them then?

Mr. FRIES. It could not redeem them, but every one that was presented decreased the amount available for presentation, and it is a fact that the raids on the Treasury, so to speak, had been made possible by reason of gold certificates in large amounts, demand obligations of the Treasury issued in large amounts, which could be held and used for that very purpose.

Now, in answer to the general question as to what is to take the place of that piece of machinery, to supply the gold that is demanded, I will say that just in proportion as the risk is distributed, just as in proportion that corresponding amount of obligation is distributed throughout the country, just in that proportion the risk is diminished.

The CHAIRMAN. But is not that contrary to the general theory?

Mr. FRIES. It is not contrary to what I believe to be the fact.

The CHAIRMAN. The Government did the contrary thing, concentrating gold in New York to pay its greenbacks.

Mr. FRIES. The fact above all others under our bill which would guard against the supposed dangers, if I understand Mr. Fowler's position correctly, is that the banks in New York, which use comparatively a small percentage of bills for business, whose business is largely a check and deposit business, will necessarily not have any of these bank bills in their vaults, except such as are there incidentally. There will be no storing of them in there. The bank notes will be distributed in the sections of the country where they are used for every-day exchanges, and the more there are distributed in that way the less danger there is of their being collected and rushed in for redemption. Is not that so?

Mr. FOWLER. But I should think, from the volume you would have out, that a man could collect a few millions very easily. I should think if there was going to be redemption at New York, that every bank in New York would be handling millions and millions of those notes every day, and if anybody wanted gold, all he would have to do would be to give his check and get the notes, and then go to the Government and get the gold. And if there was a tremendous balance against us from abroad, and we might not want to spare \$200,000,000 of gold, and the protection we ought to have, would you object to throwing that directly on the banks, so the banks could raise the rate to such a point that the gold would remain here? If the Government is going to supply the gold, they would be unable to raise the interest, so that the gold could remain here.

Mr. JOHNSON. You object to gold redemption by the Government?

Mr. FOWLER. Absolutely. They can not live together.

Mr. FRIES. Our bill does not require the Government to furnish the gold for that redemption. We say distinctly, although I think it is on

paper largely, just as the present requirement is, that that redemption shall be furnished by the banks in gold funds, and the Government of the United States is simply an agent for the receipt and collection of that fund and the payment of it to those who demand payment for the notes in transfer, in process of redemption.

Mr. FOWLER. Now, as a matter of fact, the enormous deposits in the New York banks would preclude them virtually from ever issuing notes; therefore the note issuers are the great number of banks through the country, and the New York banks would be interested in it in no way in trying to protect this gold, because they are not taking it from them, and the gold banks become the sufferers. They could not do as you do—go and try to buy the gold—for how can a merchant buy his goods to sell when another merchant takes his goods away from him and gives them away—literally gives them away?

Your whole scheme is that those notes shall go to New York. Hence there will be a stream of them pouring in from all over the country, and a congesting process just as there is to-day. Out of this enormous stream that is pouring in, if a man wants gold he simply goes and gives his check to the bank and gets bank notes, and then goes to the Government and gets gold out of the Treasury. The banks are away off in the country somewhere. But here is another weakness about it. You see the whole scheme is to throw the redemption upon the Government. Hence that sends a stream of notes from all over the country to New York, and makes them easy prey to anybody that wants to get gold, because the bank does not want the notes if it can get a check on another bank in town for the balance. He gives his check, say \$1,000,000. The bank gives him \$1,000,000 in notes. He takes them to the Treasury, and the Treasury gives him the gold for them, and the Treasury can not protect the gold reserve. What we must have in this country is the power to control the outflow of gold until we are ready to let the gold go, or let something go in the place of the gold.

Mr. FRIES. I would like Mr. Fowler to tell me how that great mass of bills, which we suppose are needed for every-day currency requirements, would get stored up in the New York banks?

Mr. FOWLER. They are going through there every day.

Mr. FRIES. If it is a matter of daily exchange, it is not dangerous.

Mr. MITCHELL. May I answer that question? I think you stated that in the panic of 1893 you went up and bought gold at one and a quarter premium. You must have paid for this with your own bank notes. Did you not pay in that way?

Mr. FRIES. No, sir. My check on New York correspondents paid for that.

If there be a daily stream it is a stream which has purified itself by its current.

The CHAIRMAN. That is poetry. That is not finance.

Mr. FOWLER. It is the kind of purification that the doctors used to practice in the old days when they used to bleed persons.

Mr. FRIES. If it be a daily stream, then there can be no such accumulation, because there can be no damming up of it in New York.

The CHAIRMAN. Mr. Fowler's proposition is that it is dammed.

Mr. FOWLER. Such an enormous quantity is redeemed if the Government is the redeemer, but if the banks were the redeemer—if you would throw this thing directly on the banks of New York—then all the banks of the United States rest on the banks in New York, they being the great central banks of the United States. But under this system it has been established that 75 per cent of all the notes are issued by the

country banks, where there are no deposits. Nothing comes that is going to be aggregated. It would be very much exhausted.

Mr. FRIES. I do not apprehend any danger.

THE ENDLESS CHAIN.

Mr. NEWLANDS. Does this bill of yours do away with the endless chain, or does it perpetuate it?

Mr. FRIES. It does away with the endless chain, as far as the United States Government is concerned. We may call it an endless chain as regards the banks of the country, but I apprehend that if I issue those notes in North Carolina to pay for the marketing of the tobacco crop in my section, those notes, as a practical matter, will largely come back to me in the payment of obligations of customers to the bank. That will be the great source. I do not apprehend that those notes will be used as a gold machine if there is any merit in this plan. That seems to be the case.

The CHAIRMAN. That is what we are finding out—whether or not there is any merit in it.

Mr. FRIES. If there is any merit in this plan to supply the needs of my section, for instance, it will come just in this way: That at this season of the year, from the first of October until the first of May, we will say, when our farmers bring in their tobacco in order to sell it, and it has to be paid for in currency of some sort, those bills will go out. Those bills, whether they are the identical ones or whether they are the bills of other banks, which we can clear, not by the necessary payment of gold but by the clearing-house operations of the redemption bureau—will come back to us in payment of notes due our bank. I think that will be the practical operation of it, and if it does not supply those needs of the country districts, then the bill will not do what it is intended to do.

The CHAIRMAN. Admitting that this bill does not furnish a machine by which the gold can be dragged out of this reserve fund of the Treasury, and then ultimately out of the banks themselves to meet foreign demands, is it not a fact that the Government itself will be subject to the endless chain through the presentation of silver for redemption in gold, in order that that gold may meet foreign demands?

Mr. FRIES. May I ask you to wait one moment? I want to emphasize what I said before. When it comes to a redemption of bank notes, this central redemption agency in practice is not much more than a place where the notes of one bank are really exchanged for the notes of another bank, if they are redundant.

The CHAIRMAN. Would it not be better to keep that at home?

Mr. FRIES. No; we want a note that will be good everywhere. I do not believe that there is any danger whatever in this silver situation, provided the amount can be restricted to the present amount, and that amount have the field which we have proposed to give it.

The CHAIRMAN. The silver, then, does furnish the medium for dragging gold out of the Treasury; but you think silver will be so distributed among the people that it can not be collected in any large amount for the purpose. Is that it?

Mr. FRIES. Yes, sir; and the converse would be true, that the gold would equally draw silver out to meet the wants of the people.

Mr. NEWLANDS. Then, if there should be any foreign demand for gold, if there should be an adverse balance of trade, or if the value of our exports should not equal the foreign demand on us for interest

charges and transportation in foreign ships, and there was a demand for \$50,000,000 in a year—a particular year—from abroad to meet that balance; or if, on the other hand, some other country, like Austria, as it did in 1893, should seek to establish a gold fund and should call upon the bankers of Europe for the gold, and they should, by a sale of American securities, seek to get that gold from this country in order to supply the proposed fund of some foreign country endeavoring to get on the gold standard, can you point to me any method by which that gold can be obtained so readily as through the depletion of the gold fund in the Treasury by the presentation of silver?

Mr. FRIES. I can not say but what your conclusions are absolutely true under the given conditions, but I would not like to say that that answer binds me as to the conditions.

Mr. NEWLANDS. We have been in such condition.

Mr. FRIES. It seems to me, gentlemen, that that suppositions condition of things really involves the question of the issue of gold against silver.

Mr. NEWLANDS. No; it simply raises the question of whether the use of gold in the world is increasing, as to whether there is going to be an increased demand for it in order to enable these nations to go on the gold standard, and as to whether there is any chance at all, by the restoration of normal crops of farm products abroad, going back to the old prices for farm products and having an adverse balance against us. I simply call your attention to conditions that have existed and assume that those conditions may exist again and ask whether there is any possibility of getting gold in this country for this foreign demand in any easier way than by the presentation of silver in exchange for gold at the Treasury of the United States and thus bringing about again the operation of the endless chain, the silver being substituted for the greenbacks which have been retired.

Mr. FRIES. Well, Mr. Newlands, it does at least involve fundamentally the question of the sufficiency and availability of the gold supply?

Mr. NEWLANDS. Yes.

Mr. FRIES. And then, if you will allow me to express an opinion which I would rather not do—but if that be the question really, the fundamental question, as to whether or not the supply of gold will be sufficient and available, and it seems to me that is the bottom of it, then I would say that, in my humble opinion, the present commercial value of silver is conclusive evidence that there is plenty of gold in the world for the exchanges of the world.

The CHAIRMAN. We have visible gold \$412,000,000; and we had visible gold \$412,000,000 in 1893 when we had the gold panic. The question is whether there is sufficient gold or not in any country or at any given point, or in the world. Does not that depend entirely upon the method of using it?

Mr. FRIES. I am not a political economist or a teacher of finance; but if there is anything clear to my mind it is this: In the international exchanges of the world gold is the accepted and acceptable commodity for settling those exchanges; that in those exchanges it comes in as a commodity pure and simple, and as none of the functions of money, as we understand it, in domestic exchanges. Gold, in the settlement of international balances, passes purely by weight, and the same amount in bars of any weight and fineness would be just as effective in settling those trade balances as coin of ascertained weight and fineness.

The CHAIRMAN. Does that answer the question?

Mr. FRIES. No, sir. Now, if those premises are correct—that the money function of gold in international trade is simply one of an acceptable and accepted commodity by which to settle those exchanges—the fact that it is sufficient, regardless of amount, as shown by statistics in any one country, is, to my mind, conclusively proved by the fact that the commercial value of silver has declined most largely, and from the fact that it was not used and not needed for the settlement of those international balances.

Mr. NEWLANDS. How did that answer my question?

The CHAIRMAN. It is my question now. You have not come in the neighborhood of answering it. I can turn to a page of one of my speeches where I have said almost exactly what you have just said, but that has nothing more to do with the question than with the sun rising in the morning and setting at night.

Mr. NEWLANDS. That is poetry, Mr. Chairman.

The CHAIRMAN. I assumed in my question that we had ample gold in the country, and I asked you whether the fact that it was sufficient for our purposes did not depend on the methods of its use? Your statement did not come within a hundred rows of apple trees of answering the question.

Mr. FRIES. I do not think that the methods of its use can be disassociated with the international use of the metal, because if we are going into the use of gold as the world's metal—

The CHAIRMAN. I am not going into that.

Mr. FRIES. Well, I would say that while I do not know whether the amount of gold now here is sufficient under the proposed methods, I am satisfied that trade will supply itself, and not at extravagant cost, with all that is needed. Is that nearer to answering it?

The CHAIRMAN. No, sir.

Mr. FRIES. Let us try it again, then.

The CHAIRMAN. Now, let me illustrate to you. They had in England in the last two or three years somewhere from \$150,000,000 to \$200,000,000 that was visible and available gold for the commerce of England. The gold that is available for the commerce of England is in the Bank of England—the gold clearing house of the world. They have had only from \$100,000,000 to \$150,000,000—\$125,000,000 being the normal sum—in the last forty years, until the last three or four years, and they have performed the functions of the gold exchanges of the world with that sum of gold. We have had in this country of visible gold from \$300,000,000 to \$500,000,000. We collected \$325,000,000 during the suspension of specie payments. I will say we have had some \$300,000,000 to \$400,000,000 of visible gold during all this period, and yet we have had this gold panic. Now, is it not a fact that this gold panic arose entirely from a faulty use of that gold?

Mr. FRIES. Yes; and the fact that that stock of gold was not available for the redemption of Government obligations, because what gold was here outside of its own vaults the Government could not get—

The CHAIRMAN. That is it.

Mr. FRIES. If that is the point you are getting at, I am thoroughly satisfied that if the Government had any means of utilizing the gold in the country, as the banks would have, it would not have been in the straits it was. The trouble was mostly in the fact that the Government had no facilities for getting gold.

The CHAIRMAN. Now, then, your answer is that the Government had no facilities to reach that gold—that is to say, the gold was not brought into economic contact with the paper money in this country,

as it is in France and Germany and the countries of Europe; not that we did not have gold enough, but in the methods of the use the trouble lay?

Mr. FRIES. I do not hesitate to say yes, if that is what you mean by methods of use.

The CHAIRMAN. Of course I mean that. Is it not a fact that the only conceivable way—a legitimate way—of the use of gold is through banks; in the banks assuming the current redemption of every form of paper money? Is not that the proper and legitimate method of doing the thing, and is it not so done in every country in the world except the United States?

Mr. FRIES. That pays no attention to the amount of actual gold coin in circulation. If by "system" you mean a method, I would say that we ought to have, and I would like to see, a considerable amount of gold outside of the banks in actual circulation in the pockets of the people.

THE WORLD'S STOCK OF GOLD.

Mr. NEWLANDS. The Mint Director's report for 1895 states that England, France, and Germany together have about \$2,000,000,000 out of a total of \$4,000,000,000 in the world. Do you think they have enough—those three countries?

Mr. FRIES. I don't believe I would like to testify as to foreign lands.

Mr. NEWLANDS. I thought I understood you to say that you thought there was a sufficiency of gold in the world, and now I want you to bring your attention to the different countries. Those three countries have one-half of the entire gold stock of the world. Do you think they have enough?

Mr. FRIES. I have no doubt about it.

Mr. NEWLANDS. Russia has more than \$480,000,000 of gold. Has she enough gold?

Mr. FRIES. I do not know a thing about Russia's condition.

Mr. NEWLANDS. Do you not know that Russia has been trying to make gold redemptions?

The CHAIRMAN. They are on the gold standard.

Mr. NEWLANDS (continuing). And has not yet succeeded? Do you not know that Russia is increasing her stock of gold every day for that purpose?

Mr. FRIES. Yes, sir.

Mr. NEWLANDS. Is it not true that Austria is endeavoring to increase her gold stock for the purpose of making gold redemption of her uncovered paper money?

Mr. FRIES. Yes, sir.

Mr. NEWLANDS. And that she has not yet accomplished it?

Mr. FRIES. Yes, sir.

Mr. NEWLANDS. And is it not true that Italy, Spain, and Portugal, all of them upon the gold standard, have large amounts of uncovered money which they are unable to redeem in gold, and that that paper money is at a discount?

Mr. FRIES. I have not sufficient information about that to answer.

Mr. NEWLANDS. If that were the fact would you say that those countries have enough gold? Or, leave out those countries, and come to South America. South America has, I believe, according to the Mint Director's report, \$48,000,000 of gold, \$30,000,000 of silver, and \$550,000,000 of uncovered paper. Do you think the South American States have enough gold?

Mr. FRIES. By enough gold, you mean for all purposes, to redeem their paper currency?

Mr. NEWLANDS. I mean to keep every dollar at a par with gold, as we are attempting to do in this country.

Mr. FRIES. I would say that a sufficiency depends on the system in those countries, and I am not familiar enough with them to say whether there is enough in coin there to meet the requirements of those systems or not. I do not know.

Mr. NEWLANDS. Now, let me ask you if the South American States have \$550,000,000 of uncovered paper money in dollars, and the value of those dollars in gold runs all the way from 60 cents down to 25 cents, and the States altogether have only \$45,000,000 in gold, and \$550,000,000 of this uncovered paper money out, do you think that they have enough gold to go on the gold standard and maintain gold redemption?

Mr. FRIES. I would say that it was high time for them to make some change.

Mr. NEWLANDS. It is very apparent that they have not enough gold.

Mr. FRIES. I do not think that follows. It follows that their present conditions are very poor.

Mr. NEWLANDS. Now, let us take India. According to the Mint Director's report it has \$950,000,000 of silver and \$37,000,000 of uncovered paper, and, according to the statement here, it has no gold. Do you think India has a sufficient amount of gold in the country?

Mr. FRIES. India certainly has gold.

Mr. NEWLANDS. None, as stated here.

Mr. FRIES. It certainly has a large store of gold. There is no question about that, I think.

Mr. NEWLANDS. Do you know how much it has?

Mr. FRIES. I do not.

Mr. NEWLANDS. Do you think it has enough?

Mr. FRIES. I think they have as serious a problem as we, but they have pretty much settled it.

Mr. NEWLANDS. Now, then, China has \$750,000,000 in silver and practically no gold. Has China enough gold?

Mr. FRIES. Perhaps she does not need any. I don't know.

Mr. NEWLANDS. Do you think it is a good thing for countries to have gold as a money standard of value?

Mr. FRIES. I do not think it makes any practical difference to the country as to what the standard is if it is definite. It does not make any difference whether it is gold or silver or shells, provided there is no doubt about the standard.

Mr. NEWLANDS. And provided you have the standard, it does not make any difference how much of that standard you have?

Mr. FRIES. It makes some difference.

Mr. NEWLANDS. Then the quantity does make some difference?

Mr. FRIES. Did I understand you to ask me about Japan?

Mr. NEWLANDS. No; but I would be glad to have you say anything about Japan.

Mr. FRIES. My opinion is that Japan, of all the nations of the earth, has come the nearest to the solution of this question, just now, in that she has made the ratio of silver to gold 32 to 1.

Mr. NEWLANDS. Does she coin any silver?

Mr. FRIES. I do not know what their mint regulations are.

Mr. NEWLANDS. You do not know whether she coins silver and gold? I would have been glad to have gotten from you an admission that it would be good to coin silver even in any degree.

Mr. FRIES. If that is the question, I will admit it without any doubt. I will qualify by saying that I consider restricted coinage of copper or nickel essential in this case. I will go further than that. I will say that I believe the international free coinage of copper, nickel, and silver would destroy the monetary value of all three and reduce them to commodities.

Mr. NEWLANDS. I will not pursue that line.

Mr. FOWLER. I would like to have him pursue that.

Mr. NEWLANDS. I want to press one line of inquiry, with reference to the sufficiency of gold, and not allow myself to be diverted from it. I want to find out whether there is a sufficiency of gold, and I have shown you that three countries absorb one-half of the gold stock of the world, and I do not understand that you have said that they have got too much. That gives the other one-half of the gold stock of the world for the rest of the world. Can you point to me a debtor country in the world, except the United States, that has been able to maintain its paper money at a par with gold?

Mr. FRIES. Do you class the United States as a debtor country?

Mr. NEWLANDS. I do.

Mr. FRIES. If my information is correct, the United States is to-day lending money to Europe.

Mr. NEWLANDS. Well, it depends entirely upon your definition of a debtor country. Of course a debtor country may owe nothing, but its people may owe large amounts, and it is in the latter sense I speak. I ask if a country whose people owe more money to other countries than is owing to them from the people of other countries is a debtor nation, and I assume that according to that definition the United States is one of the greatest debtor nations in the world. Is not that so?

Mr. FRIES. Well, possibly by that standard simply. But I would like to draw a very clear distinction there, and when I am commenting on the United States as a debtor country; in that I think there is just as much difference between debtor countries and individuals who for the time being may have outstanding obligations, but some of whom are solvent and some of whom are insolvent; and the solvent ones are debtors, simply by the fact they can use the money they have borrowed to advantage, not because of their essential needs, but because it is profitable to them to owe that money and use it at a better return than the interest they pay on it.

Mr. NEWLANDS. That is a fair distinction as between debtor countries. There is no doubt about it.

Mr. FRIES. And I will admit that in any country which is a debtor from pure lack of business returns in that country, or from bad government in the sense that we are told that Spain has now, they have to borrow to meet their obligations of war when they have not got their income at home. That is a debtor country which is not a debtor country of its own volition, but by its necessities. I take it the United States is a debtor country simply because, with our facilities and business advantages, we borrow money because we can owe it to advantage and make a profit on it over and above the interest we pay, and I believe that the United States to-day is accumulating capital and getting better off by reason of its being a debtor country in that sense. With that definition as to debtor countries, I would say that there is no reason in the world why the United States can not manage its finances on the same plane as England can, or as any man in the country can, who may have large property and goes into debt to pursue an enterprise, and he creates that debt, too, without any slur upon his solvency.

Mr. NEWLANDS. I agree with you, but that does not answer my question. I asked you whether you knew of any debtor nation in the world, except the United States, that has been able to keep its paper money at par with gold.

Mr. FRIES. Well, I never have investigated.

Mr. NEWLANDS. I have gone over Russia, Italy, Spain, and Portugal, and these South American countries. Is there one of them that you can enumerate—

Mr. FRIES. Of all those countries, those that have a measure of industrial prosperity have been able to do it, and soon reached the position of not being creditor countries. Without that distinction as to the character of the debts owed, I can not express an opinion on that point.

Mr. McCLEARY. You do not want the United States classed with them?

Mr. FRIES. No, sir.

Mr. NEWLANDS. You said you did not see why we should not be able to borrow money for enterprises as England does. Do you not think there is a distinction between England and this country in its international relations. Would you not regard England as a great creditor nation, viewed internationally, and our country as a great debtor nation, viewed internationally?

Mr. FRIES. I suppose so; yes, sir.

Mr. NEWLANDS. One other question. What nation can get along with the lesser amount of real money of redemption; the debtor nation or the creditor nation, assuming that everything else is equal?

Mr. FRIES. What do you mean by real money of redemption?

Mr. NEWLANDS. Which country can get along with a less amount of gold, assuming that they both propose to maintain the gold standard and supposing that all other conditions are equal except that one nation is a debtor nation and the other is a creditor nation?

Mr. FRIES. I do not think that is the controlling factor.

Mr. NEWLANDS. You could not say that either would require more gold?

Mr. FRIES. I do not think that that would be the controlling factor.

Mr. NEWLANDS. You would say, generally speaking, that a man to whom large amounts of money were owing, could get along with less bank account than the man from whom large sums were owing, coming due from day to day or week to week, or from month to month?

Mr. FRIES. I believe the converse is the practical state of affairs.

Mr. NEWLANDS. But as a matter of prudence and good judgment, as a debtor with obligations coming due every day and every week and every month, assuming that you had large properties, that you were solvent, but that you owed large amounts of money, would you not feel that you needed more of money in your bank account to meet these demands as they came in, than you would if you were a creditor to whom large amounts of money were owing?

Mr. FRIES. Do you mean would I feel so, or would I keep it?

Mr. NEWLANDS. I mean as a man of good judgment, whether you would feel so; whether you would feel that you ought to? I will not trust the average American as to whether he will or not.

Mr. FRIES. I think, too, that I would act upon that idea, and that I would pay my debts as fast as possible and stop interest upon them; that the greater my obligations were, the more careful I would be not to have any idle money, and I would apply every dollar I could raise.

Mr. NEWLANDS. Now, if you had large sums of money owing to you

it would not be necessary for you to keep a bank account at all, would it, except for your current transactions?

Mr. FRIES. I do not know that it is necessary for anybody to keep a bank account. It is a matter of commercial convenience.

Mr. NEWLANDS. You do not mean to say that, as a matter of commercial business prudence, if you had an indebtedness of \$2,000,000 due to different people, coming due every day, you would do business without having a considerable fund in bank against which you could check?

Mr. FRIES. I think that my disposition would be to use every dollar that I could raise to reduce that indebtedness.

Mr. NEWLANDS. You would have no moneys in the bank at all?

Mr. FRIES. No; but I would have a smaller balance of debt. I would be that much better off.

Mr. NEWLANDS. Let me call your attention, then, to this: We assume now that gold is the only real money, for that is what it amounts to. By this bill you practically propose to make silver a debt payable in gold. England has to day \$14 in gold per capita, and we have \$8 in gold for each person. Now, recollect, we have a vast territory. The distances that exchange has to travel makes it more difficult for that reason; while England has a concentrated territory, with a population of about one half of ours massed in a very small area. Now, would you think our sum of gold over here was disproportionately small?

Mr. FRIES. I think it is to-day relatively larger than that in England.

Mr. NEWLANDS. Why do you think it is?

Mr. FRIES. Because it is the habit of the people of England to use gold in their daily transactions, and it is not the habit with us, in the first place. I merely say that apart from statistics. My general impression was before, just as Mr. Newlands' figures indicate, that, taking into account the relative habits of the people, we have an ampler supply of gold available here than they have in England.

The CHAIRMAN. Mr. Newlands' time has expired.

Mr. MITCHELL. As a matter of fact, banking in this country, people seldom want gold coin for any of their transactions?

Mr. FRIES. Yes, sir.

Mr. MITCHELL. It is only that they want to feel that they can get the gold coin in case it is absolutely necessary that makes a demand for it?

Mr. JOHNSON. That same remark will apply to the French people, will it not—their difference in habits with respect to the use of coin?

Mr. FRIES. The question was as to the habits of the French people?

Mr. JOHNSON. In the use of coin, whether their habits are not different from ours; whether they do not use more than we do?

Mr. FRIES. I believe that is their habit, from what I have read. I believe that all European countries practically use a great deal more coin than we do, and that consequently with that use the actual supply of coin is greater in the United States to day than it is in any country of which I have any information.

CIRCULATION UNDER THE COMMISSION BILL.

Mr. HILL. I will ask you this question—you being a practical banker: Your bill provides for a fixed limit, and a compulsory limit of 25 per cent of the capital in secured circulation, and requires a guaranty fund against that circulation, and also makes that secured circulation

assessable for defaulted notes in the remote probability of any assessment being necessary. Now, I understand Mr. Taylor to say that the reason that was fixed at 25 per cent was that the law required the holding of bonds to the extent of 25 per cent, or that the aggregate holding was about 25 per cent of the amount of the capital?

Mr. FRIES. The average is 25 per cent.

Mr. HILL. For small banks, under \$150,000, but above that they are only required to hold \$50,000. Do you see any objection to giving to national banks—that is, the country banks, which now generally hold 100 per cent of their capital in bonds, and issue a circulation against it—the option of continuing under the terms of your bill their secured circulation, not being liable for guaranty fund, not being liable for assessment, and allowing them to take their own time to change, rather than compelling them to dissolve in twelve months if they did not do it?

Mr. FRIES. I believe that the fact is, Mr. Hill, that to-day the average country bank has not 100 per cent of its capital invested in bonds. The average country bank has just the 25 per cent which is the minimum required by law; and it was the general idea, which we carried all the way through, that it was unwise to disturb existing conditions without good cause, and so we thought it would be better to leave the bond requirement just as it is to-day as to minimum holdings of bonds, and give time for change and development in this system.

Mr. HILL. You have \$660,000,000 of bank currency?

Mr. FRIES. Yes, sir.

Mr. HILL. You have about \$200,000,000 in circulation to-day held against bonds?

Mr. FRIES. Yes, sir.

Mr. HILL. That would be about one-third, or a little over. Now, the reserve city banks largely do not carry circulation, and do not carry bonds except to the law requirement of \$50,000. That is correct, is it not?

Mr. FRIES. The larger ones. There is no rule. The Hanover National Bank has very nearly its 100 per cent, and from some cause, which I can not explain, if I am correct, the National Exchange Bank has 100 per cent, and strangely enough has all its bills in \$5 bills.

Mr. HILL. Let me state a conceivable case.

Mr. FRIES. Let me finish. From some cause, which I can not explain, it is a fact that New England banks have largely taken out their circulation. But the rule is almost invariable that the banks South and West have the minimum requirement.

Mr. McCLEARY. I do not know an exception to that.

Mr. FRIES. The difference between the required 25 per cent and the actual third that is out is made up, I apprehend, almost entirely in the few large banks like the Hanover, in New York, and a few large banks in New England.

Mr. HILL. Do you see any objection, then, to the banks in New England that choose to do so, availing themselves of the privileges of this bill to issue circulation to the market value of the bonds held, to continue their present holdings of bonds at their option, and avail themselves of the other privileges of the bill without the deposit of a guaranty fund, the security being the deposit with the Government; and would you object to your bill being amended in that way? Is there any harm to be done by it?

Mr. FRIES. I think that the objection is very largely a sentimental one, in that we think, and many people think, that it is better on gen-

eral considerations that there should be one single, uniform, and homogeneous system. I think that is the principal reason for it. Otherwise I see no particular objection——

Mr. JOHNSON. Do you call that a mere matter of sentiment?

Mr. FRIES. It is largely a sentimental one.

Mr. JOHNSON. Would not the proposition that you present immediately, or within twelve months, cause a redistribution of 75 per cent of the bonds held by the banks?

Mr. FRIES. I see no reason why a country bank in our section having the required 25 per cent should hesitate to change over to this system; and it seems to me that it is so free from objections, as against the present system, that a bank which now had even the full amount ought not to hesitate, because it assumes no other greater burden.

Mr. JOHNSON. But you force their bonds on the market within twelve months or require a dissolution of the organization.

Mr. FRIES. I think there is no doubt, and that is one of the greatest fears that I have, that during these five years, with the advantages we hope will come from such a system, the trouble would be for the banks to get their bonds.

Mr. JOHNSON. And for that reason you propose to force those that have them to put them on the market and sell them?

Mr. FRIES. No; the reason was to make the system uniform and homogeneous. That was the reason, and the only reason.

Mr. JOHNSON. Would you object to a longer time being given in which to do that?

Mr. FRIES. No, sir.

Mr. JOHNSON. Is it not a little hard to make them do that?

Thereupon, at 4.30 o'clock, the committee adjourned until Monday, January 17, 1898, at 10.30 o'clock a. m.

[On the fourth, fifth, sixth, and seventh days, January 17, 18, 19, and 20, Hon. Charles S. Fairchild continued his statement begun on the first day, January 12. His remarks are presented in continuity elsewhere. In connection with the statement of Mr. Fairchild will also be found the statement of Hon. Lyman J. Gage, Secretary of the Treasury.]

TABLES
 SUBMITTED
TO THE COMMITTEE ON BANKING AND CURRENCY
 BY THE CHAIRMAN
 AT A REGULAR MEETING ON DECEMBER 15, 1897, AND SUBSEQUENTLY.

TABLE A.

Amount and coining value of silver bullion that could have been purchased, maximum and minimum, as authorized by the act of February 28, 1878, and the amount of Treasury notes issued under the act of July 14, 1890, and the amounts that could have been issued if the act had continued in force, from July 1, 1890, to July 1, 1897.

Date.	Value of a fine ounce at average monthly price.	Minimum purchase (\$2,000,000.)		Maximum purchase (\$4,000,000.)		Treasury notes issued under act July 14, 1890.
		Fine ounces.	Coining value.	Fine ounces.	Coining value.	
July, 1890.....	\$1.08367	1,845,580	\$2,386,204	3,691,160	\$4,772,408	.....
August, 1890.....	1.15643	1,729,460	2,236,069	3,458,920	4,472,138	\$3,609,000
September, 1890.....	1.15946	1,724,941	2,230,227	3,449,882	4,460,454	4,460,000
October, 1890.....	1.08821	1,887,880	2,376,249	3,675,790	4,752,498	5,880,000
November, 1890.....	1.03404	1,934,161	2,500,733	3,868,322	5,001,466	5,309,800
December, 1890.....	1.04939	1,905,869	2,464,154	3,811,738	4,928,308	4,831,700
January, 1891.....	1.05034	1,904,145	2,461,925	3,808,290	4,923,850	4,713,500
February, 1891.....	1.00202	1,996,968	2,580,645	3,991,936	5,161,290	4,346,700
March, 1891.....	.98854	2,023,185	2,615,835	4,046,370	5,231,670	3,942,500
April, 1891.....	.99453	2,011,000	2,600,081	4,022,000	5,200,162	4,638,000
May, 1891.....	.97805	2,044,885	2,643,892	4,069,770	5,287,784	3,946,147
June, 1891.....	.98924	2,021,754	2,613,985	4,043,508	5,227,970	4,551,070
July, 1891.....	1.00825	1,983,635	2,564,700	3,967,270	5,129,400	4,765,618
August, 1891.....	.99390	2,012,275	2,601,729	4,024,550	5,203,458	4,692,000
September, 1891.....	.97767	2,045,680	2,644,920	4,091,360	5,289,840	4,565,095
October, 1891.....	.07046	2,060,878	2,666,570	4,121,756	5,329,140	4,474,140
November, 1891.....	.95257	2,099,583	2,714,612	4,199,166	5,420,224	4,234,382
December, 1891.....	.95517	2,093,868	2,707,223	4,187,736	5,414,446	4,367,450
January, 1892.....	.93515	2,138,094	2,765,180	4,277,388	5,530,360	4,225,898
February, 1892.....	.91106	2,195,245	2,838,296	4,390,490	5,676,592	3,683,212
March, 1892.....	.89699	2,229,079	2,882,817	4,459,358	5,765,634	4,365,986
April, 1892.....	.87229	2,292,815	2,964,448	4,585,680	5,928,896	3,636,492
May, 1892.....	.88029	2,271,978	2,937,507	4,543,956	5,875,014	4,163,296
June, 1892.....	.89298	2,239,092	2,895,763	4,479,384	5,791,526	4,320,085
July, 1892.....	.87181	2,294,077	2,966,079	4,588,154	5,932,158	3,854,099
August, 1892.....	.84203	2,375,212	3,070,981	4,750,424	6,141,962	3,816,487
September, 1892.....	.83801	2,396,606	3,085,713	4,773,212	6,171,426	3,101,698
October, 1892.....	.85287	2,345,023	3,031,949	4,680,046	6,063,898	4,126,898
November, 1892.....	.85512	2,338,853	3,023,971	4,677,706	6,047,942	4,185,480
December, 1892.....	.84274	2,373,211	3,068,394	4,746,422	6,136,788	3,918,910
January, 1893.....	.84217	2,374,817	3,070,470	4,749,634	6,140,840	3,200,866
February, 1893.....	.84216	2,372,029	3,066,866	4,744,058	6,133,732	3,921,364
March, 1893.....	.83255	2,402,258	3,105,950	4,804,516	6,211,900	3,622,295
April, 1893.....	.83610	2,392,058	2,092,762	4,784,116	6,185,824	3,879,630
May, 1893.....	.83856	2,385,041	3,083,669	4,770,062	6,167,378	4,120,096
June, 1893.....	.81654	2,449,359	3,166,848	4,898,718	6,333,696	4,000,353
July, 1893.....	.71981	2,778,511	3,592,418	5,557,022	7,184,836	1,096,121
August, 1893.....	.74337	2,690,450	3,478,562	5,380,990	6,957,124	2,868,877
September, 1893.....	.74709	2,677,033	3,461,240	5,354,106	6,922,480	1,682,616
October, 1893.....	.73339	2,727,002	3,523,898	5,454,124	7,061,796	1,809,481
November, 1893.....	.70390	2,841,312	3,673,615	5,682,624	7,347,230	883,680
Total.....	.....	90,845,782	117,457,169	181,691,564	234,914,338	155,931,002

Amount and coining value of silver bullion that could have been purchased, maximum and minimum, as authorized by the act of February 28, 1878, etc.—Continued.

Date.	Value of a fine ounce at average monthly price.	Minimum purchase (\$2,000,000.)		Maximum purchase (\$4,000,000.)		Treasury notes issued under act July 14, 1890.
		Fine ounces.	Coining value.	Fine ounces.	Coining value.	
December, 1893.....	\$0.70177	2,849,936	\$3,684,766	5,699,872	\$7,369,532	\$43,157,965
January, 1894.....	.68004	2,911,463	3,764,816	5,822,926	7,528,632	3,091,230
February, 1894.....	.64052	3,122,463	4,037,124	6,244,926	8,074,248	2,882,349
March, 1894.....	.60037	3,331,279	4,307,108	6,662,558	8,614,216	2,701,665
April, 1894.....	.63382	3,155,470	4,079,800	6,310,940	8,159,000	2,852,190
May, 1894.....	.63180	3,185,558	4,092,843	6,331,116	8,185,086	2,843,100
June, 1894.....	.63129	3,188,116	4,096,150	6,336,332	8,192,300	2,840,805
July, 1894.....	.63041	3,172,538	4,101,867	6,345,076	8,203,734	2,836,845
August, 1894.....	.64474	3,102,025	4,010,699	6,204,060	8,021,368	2,901,330
September, 1894.....	.64802	3,086,824	3,990,399	6,172,048	7,980,798	2,916,090
October, 1894.....	.64005	3,124,756	4,040,088	6,249,512	8,080,176	2,880,225
November, 1894.....	.63628	3,143,270	4,064,026	6,286,540	8,128,052	2,863,269
December, 1894.....	.61063	3,275,305	4,234,788	6,550,010	8,469,476	2,747,835
January, 1895.....	.60190	3,222,811	4,296,159	6,645,022	8,592,318	2,708,550
February, 1895.....	.60444	3,208,847	4,278,105	6,617,064	8,556,210	2,719,969
March, 1895.....	.62447	3,202,715	4,140,884	6,405,430	8,281,768	2,810,115
April, 1895.....	.67059	2,982,449	3,856,095	5,964,868	7,712,190	2,917,655
May, 1895.....	.67289	2,972,254	3,842,914	5,944,508	7,685,628	2,928,006
June, 1895.....	.67139	2,978,694	3,851,499	5,957,788	7,702,968	2,921,265
July, 1895.....	.67187	2,976,766	3,848,748	5,953,532	7,697,496	2,923,415
August, 1895.....	.67122	2,979,649	3,852,475	5,959,208	7,704,950	2,920,499
September, 1895.....	.67234	2,974,685	3,846,057	5,949,370	7,692,114	2,925,539
October, 1895.....	.68010	2,940,744	3,802,174	5,881,488	7,604,348	2,990,450
November, 1895.....	.68592	2,915,792	3,769,917	5,831,584	7,539,634	3,068,646
December, 1895.....	.66963	2,986,724	3,861,623	5,973,448	7,723,246	3,013,335
January, 1896.....	.67518	2,962,173	3,829,880	5,924,946	7,659,760	3,038,310
February, 1896.....	.68104	2,936,685	3,796,926	5,873,370	7,593,852	3,064,680
March, 1896.....	.68988	2,899,055	3,748,273	5,798,110	7,496,546	3,104,460
April, 1896.....	.68401	2,923,933	3,780,438	5,847,966	7,560,876	3,078,045
May, 1896.....	.68851	2,904,828	3,755,731	5,809,046	7,511,462	3,098,475
June, 1896.....	.69091	2,894,733	3,742,685	5,789,466	7,485,370	3,109,095
July, 1896.....	.69185	2,890,800	3,737,000	5,781,900	7,475,200	3,113,325
August, 1896.....	.67879	2,946,419	3,809,511	5,892,838	7,619,022	3,064,565
September, 1896.....	.68169	2,922,563	3,807,960	5,945,126	7,815,030	2,977,605
October, 1896.....	.65828	3,152,130	3,946,188	6,104,280	7,892,876	2,948,760
November, 1896.....	.65470	3,154,834	3,949,684	6,109,968	7,899,368	2,946,159
December, 1896.....	.65605	3,148,548	3,941,557	6,097,096	7,883,114	2,952,225
January, 1897.....	.65235	3,165,838	3,963,912	6,131,076	7,927,824	2,935,575
February, 1897.....	.65169	3,168,943	3,967,926	6,137,866	7,935,852	2,932,605
March, 1897.....	.63577	3,145,702	4,067,286	6,291,584	8,134,572	2,860,965
April, 1897.....	.62323	3,209,086	4,149,124	6,418,176	8,298,248	2,804,535
May, 1897.....	.61010	3,278,151	4,238,417	6,556,302	8,476,984	2,745,450
June, 1897.....	.60536	3,303,819	4,271,604	6,607,638	8,543,208	2,724,129
Total.....		131,759,160	170,355,276	263,518,820	340,710,552	126,539,235
Grand total.....		222,604,942	287,812,445	445,209,684	575,624,890	262,470,237

^a Since the repeal of the act of July 14, 1890, these amounts are based upon the purchase of 4,500,000 ounces monthly.

R. E. PRESTON,
Director of the Mint.

TREASURY DEPARTMENT, BUREAU OF THE MINT,
January 3, 1898.

TABLE B.

TABLE I.—A 2½ per cent bond, interest payable quarterly, running twenty years, must sell at the following prices to realize to the investor the given rates of interest.

Price of bond.	Income from bond.	Price of bond.	Income from bond.
	Per cent.		Per cent.
\$101.5847	2.4	\$109.9639	1.9
103.1990	2.3	111.7351	1.8
104.8434	2.2	113.5396	1.7
106.5187	2.1	115.3780	1.6
108.2253	2.0	117.2511	1.5

TABLE IIa.—Profit on national-bank circulation based on a deposit of \$100,000 bonds currency taken out to the par value of the bonds and free from all taxes.

MONEY WORTH 4 PER CENT.

20-year 3½ per cent. bonds.		Maximum circulation obtainable.	Receipts.		Deductions.					Net receipts.	Interest on cost of bonds at 4 per cent.	Profit on circulation.	
Investment value.	Market value.		Interest on circulation at 4 per cent.	Interest on bonds.	Gross receipts.	Cost of redemption.	Express charges.	Plates.	Agents' fees.	Sinking fund.	Total.	Amount.	Per cent.
2.5	\$100,000.00	\$100,000.00	\$4,000.00	\$2,500	\$6,500.00	\$45.00	\$3.00	\$7.50	\$7.00	.....	\$92.50	\$2,437.50	2.437
2.4	101,364.70	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	\$32.19	114.60	2,322.01	2.298
2.3	103,199.00	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	105.17	197.67	2,304.27	2.136
2.2	104,843.40	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	139.23	221.73	2,084.53	1.968
2.1	106,528.70	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	214.30	276.80	1,962.45	1.843
2.0	108,223.80	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	270.41	332.91	1,838.08	1.668
1.9	109,932.90	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	327.50	389.50	1,711.37	1.556
1.8	111,735.40	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	384.59	447.09	1,582.30	1.416
1.7	113,535.40	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	441.69	504.69	1,450.80	1.278
1.6	115,378.00	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	500.74	568.04	1,316.82	1.141
1.5	117,231.10	100,000.00	4,000.00	2,500	6,500.00	45.00	3.00	7.50	7.00	557.13	623.04	1,180.33	1.007

TABLE IIb.—Profit on national bank circulation based on a deposit of \$100,000 bonds, currency taken out to the par value of the bonds and free from all taxes.

MONEY WORTH 6 PER CENT.

20-year 2½ per cent bonds.		Maximum circulation obtainable.	Receipts.		Deductions.							Interest on cost of bonds at 6 per cent.	Profit on circulation.		
Investment value.	Market value.		Interest on circulation at 6 per cent.	Interest on bonds.	Gross receipts.	Cost of redemption.	Ex. press charges.	Plates.	Agents' fees.	Sinking fund.	Total.		Net receipts.	Amount.	Per cent.
2.5	\$100,000.00	\$100,000.00	\$6,000.00	\$2,500.00	\$8,500.00	\$45.00	\$3.00	\$7.50	\$7.00	.....	\$62.50	\$8,437.50	\$8,000.00	\$2,437.50	2.437
2.4	101,584.70	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	\$41.51	104.01	8,385.99	8,000.00	2,385.99	2.385
2.3	103,199.00	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	83.79	146.29	8,353.71	8,191.94	2,161.77	2.095
2.2	104,843.40	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	196.86	189.36	8,310.64	8,290.60	2,020.04	1.927
2.1	106,518.70	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	170.74	233.24	8,268.76	8,391.12	1,875.64	1.761
2.0	108,225.30	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	215.45	277.95	8,222.05	8,431.52	1,728.53	1.598
1.9	109,963.90	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	280.99	223.49	8,176.51	8,507.83	1,578.68	1.438
1.8	111,735.10	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	307.38	369.88	8,130.12	8,704.11	1,426.01	1.276
1.7	113,539.60	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	354.65	417.15	8,082.85	8,812.83	1,270.47	1.119
1.6	115,378.00	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	402.80	466.30	8,034.70	8,922.68	1,112.02	0.964
1.5	117,251.10	100,000.00	6,000.00	2,500.00	8,500.00	45.00	3.00	7.50	7.00	451.86	514.86	7,985.64	7,035.07	950.57	.811

TABLE IIc.—Profit on national bank circulation based on a deposit of \$100,000 bonds, currency taken out to the par value of the bonds and free from all taxes.

MONEY WORTH 8 PER CENT.

20-year 2½ per cent bonds.		Maximum circulation obtainable.	Receipts.			Deductions.					Net receipts.	Interest on cost of bonds at 8 per cent.	Profit on circulation.	
Investment value.	Market value.		Interest on circulation at 8 per cent.	Interest on bonds.	Gross receipts.	Cost of redemption.	Express charges.	Plates.	Agents' fees.	Sinking fund.	Total.		Amount.	Per cent.
2.5	\$100,000.00	\$100,000.00	\$8,000.00	\$2,500.00	\$10,500.00	\$45.00	\$3.00	\$7.50	\$7.00	.....	\$92.50	\$8,000.00	\$2,437.50	2.437
2.4	101,584.70	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	\$32.71	95.27	8,126.78	2,378.01	2.342
2.3	103,196.00	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	66.04	128.54	8,255.92	2,315.54	2.305
2.2	104,843.40	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	99.98	162.48	8,387.47	1,950.05	1.860
2.1	106,518.70	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	134.56	197.06	8,521.60	1,781.44	1.673
2.0	108,225.80	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	169.79	232.29	8,658.02	1,609.69	1.487
1.9	109,963.90	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	205.68	268.18	8,797.11	1,434.71	1.395
1.8	111,735.10	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	242.28	304.78	8,938.91	1,256.43	1.124
1.7	113,539.60	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	279.48	341.98	9,083.17	1,074.85	0.947
1.6	115,378.00	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	317.44	379.94	9,230.24	889.82	0.771
1.5	117,251.10	100,000.00	8,000.00	2,500.00	10,500.00	45.00	3.00	7.50	7.00	356.11	418.61	9,380.09	701.90	0.598

TABLE 11d.—Profit on national-bank circulation based on a profit of \$100,000 bonds currency taken out to the par value of the bonds and free from all taxes.

MONEY WORTH 10 PER CENT.

20 year $\frac{3}{4}$ per cent bonds.		Receipts.				Deductions.					Net receipts.	Interest on bonds at 10 per cent.	Profit on circulation.		
Investment value.	Market value.	Maximum circulation obtainable.	Interest on circulation at 10 per cent.	Interest on bonds.	Gross receipts.	Cost of redemption.	Express charges.	Plates.	Agents' fees.	Sinking fund.			Total.	Amount.	Per cent.
2.5	\$100,000.00	\$100,000.00	\$10,000.00	\$2,500.00	\$12,500.00	\$45.00	\$3.00	\$7.50	\$7.00	.....	\$62.50	\$12,437.50	\$10,000.00	\$2,437.50	2.437
2.4	101,584.70	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	\$20.42	82.92	12,417.08	10,135.47	2,281.61	2.282
2.3	103,190.00	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	41.21	103.71	12,396.29	10,376.90	2,019.39	2.019
2.2	104,843.40	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	62.40	124.90	12,375.10	10,484.24	1,890.86	1.893
2.1	106,518.70	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	83.98	146.48	12,353.52	10,631.87	1,721.65	1.722
2.0	108,223.90	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	105.97	168.47	12,331.93	10,822.53	1,509.40	1.509
1.9	109,963.90	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	128.37	190.87	12,309.13	10,996.39	1,312.74	1.312
1.8	111,735.10	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	151.18	213.68	12,286.04	11,342.90	903.14	.903
1.7	113,589.80	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	174.44	236.94	12,263.06	11,542.80	700.26	.700
1.6	115,376.00	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	198.12	260.62	12,239.58	11,837.80	491.78	.491
1.5	117,251.10	100,000.00	10,000.00	2,500.00	12,500.00	45.00	3.00	7.50	7.00	222.25	284.75	12,215.26	11,733.11	482.15	.418

TABLE III.—Interest-bearing debt of the United States, exclusive of Pacific Railway bonds.

Title of loan.	Rate.	When redeemable.	Amount issued.	Outstanding.	Market value of bonds outstanding July 1, 1897.	Amount of 2 per cent bonds maturing on same day as each outstanding bond that would be of same value to holder as said bond July 1, 1897.	Amount of 3 per cent bonds maturing on same day as each outstanding bond that would be of same value to holder as said bond July 1, 1897.	Amount of 4 per cent bonds maturing on same day as each outstanding bond that would be of same value to holder as said bond July 1, 1897.
Funded loan of 1891	Continued at 2 per cent.	Option of United States.	\$250,000,000.00	\$25,364,500.00	.....	.....	.....	.....
Funded loan of 1907	4 per cent.	July 1, 1907	740,802,000.00	559,640,650.00	\$924,183,069	\$903,438,500	\$905,676,874	
Refunding certificates	do	.....	40,012,750.00	44,770.00	50,249	53,073	55,693	
Loan of 1904	5 per cent.	Feb. 1, 1904	\$100,000,000.00	100,000,000.00	113,978,900	115,210,924	118,824,588	122,672,813
Loan of 1925	4 per cent.	Feb. 1, 1925	\$182,316,400.00	162,315,400.00	202,806,407	211,565,633	235,361,137	266,203,748
Total			1,293,890,150.00	847,885,320.00	944,468,625	960,862,061	1,017,665,301	1,038,607,589
Total, excluding 2 per cent bonds.			.....	\$22,000,830.00	122,467,806	138,861,211	199,664,481	261,606,769
Excess over par .....			.....	.....	.....	.....	.....	.....

a Total sum paid into the United States Treasury for bonds of 1904 and 1925, \$293,385,040.5°.

TABLE IVa.—Profit more in a 4 per cent locality than in a 6, 8, or 10 per cent locality to banks buying $2\frac{1}{4}$ per cent 20-year bonds at a premium to pay 2.5 per cent as security for currency.

Location.	Profit.	Advantage of 4 per cent locality.	
		Amount.	Per cent.
4 per cent.....	\$2,437.50	.....	.....
6 per cent.....	2,437.50	.....	.....
8 per cent.....	2,437.50	.....	.....
10 per cent.....	2,437.50	.....	.....

TABLE IVb.—Profit more in a 4 per cent locality than in a 6, 8, or 10 per cent locality to banks buying $2\frac{1}{4}$ per cent 20-year bonds at a premium to pay 2.5 per cent as security for currency.

Location.	Profit.	Advantage of 4 per cent locality.	
		Amount.	Per cent.
4 per cent.....	\$2,204.37	.....	.....
6 per cent.....	2,161.77	\$42.60	2
8 per cent.....	2,115.54	88.83	4.2
10 per cent.....	2,076.89	127.98	6.3

TABLE IVc.—Profit more in a 4 per cent locality than in a 6, 8, or 10 per cent locality to banks buying $2\frac{1}{4}$ per cent 20-year bonds at a premium to pay 2 per cent as security for currency.

Location.	Profit.	Advantage of 4 per cent locality.	
		Amount.	Per cent.
4 per cent.....	\$1,838.08	.....	.....
6 per cent.....	1,728.53	\$109.55	6.3
8 per cent.....	1,609.09	228.39	14.2
10 per cent.....	1,509.00	329.08	21.8

TABLE IVd.—Profit more in a 4 per cent locality than in a 6, 8, or 10 per cent locality to banks buying $2\frac{1}{4}$ per cent 20-year bonds at a premium to pay 1.8 per cent as security for currency.

Location.	Profit.	Advantage of 4 per cent locality.	
		Amount.	Per cent.
4 per cent.....	\$1,582.30	.....	.....
6 per cent.....	1,426.01	\$156.29	11.0
8 per cent.....	1,256.43	325.87	25.9
10 per cent.....	1,112.81	469.49	42.2

TABLE IVe.—Profit more in a 4 per cent locality than in a 6, 8, or 10 per cent locality to banks buying $2\frac{1}{4}$ per cent 20-year bonds at a premium to pay $1\frac{1}{4}$ per cent as security for currency.

Location.	Profit.	Advantage of 4 per cent locality.	
		Amount.	Per cent.
4 per cent.....	\$1,180.32	.....	.....
6 per cent.....	950.57	\$229.75	24.7
8 per cent.....	701.80	479.02	68.3
10 per cent.....	490.14	690.18	140.6

TABLE C.

State.	Percentage of currency to—							
	Capital.		Deposits.		Loans and discounts.		Total currency and deposits.	
	1856.	1896.	1856.	1896.	1856.	1896.	1856.	1896.
Maine	46	64	83	240	22	39	24.55	70.59
Massachusetts	45	45	28	109	19	26	21.66	52.13
Vermont	103	49	498	40	54	28	83.27	28.69
Rhode Island	27	38	176	38	19	21	63.73	27.67
New York (except New York City)	76	47	113	15	28	15	55.55	13.05
New York City	15	41	12	8	8	7	10.92	7.01
Virginia	96	39	210	14	61	12	67.73	12.21
North Carolina	95	26	523	14	50	11	83.92	12.65
South Carolina	37	24	212	12	29	7	67.94	10.65
Georgia	50	31	329	17	40	13	76.70	14.27
Louisiana	38	35	49	7	26	7	32.47	6.61
Indiana	112	33	231	16	65	15	82.51	13.81
Michigan	79	31	42	12	29	10	29.56	10.52
Six New England States	47.1	36	152.1	21.9	28.7	15.6	60.4	17.9

State.	Percentage of specie to—						Percentage of loans and discounts to total of capital and deposits.	
	Currency.		Loans and discounts.		Currency and deposits.			
	1856.	1896.	1856.	1896.	1856.	1896.	1856.	1896.
Maine	22	15	5.04	5.76	6	10	84.3	113.4
Massachusetts	22	17	4.37	4.50	5	9	88.4	111
Vermont	5	19	2.85	5.33	4	5	115.7	79
Rhode Island	10	16	1.56	3.24	6	4	112.2	91.4
New York (except New York City) ..	5	49	1.44	7.15	3	6	116.5	77.6
New York City	139	240	10.73	15.76	15	17	87.8	96.9
Virginia	24	59	12.04	7.27	16	7	112.8	83.2
North Carolina	24	73	11.77	7.79	20	9	112.2	87.5
South Carolina	19	47	5.52	3.34	13	5	110.8	110.7
Georgia	22	60	8.66	7.73	17	9	110.8	84.1
Louisiana	113	194	29.78	13.83	37	18	81.4	82.6
Indiana	35	99	22.85	14.50	29	14	111.6	73.5
Michigan	27	84	7.59	8.04	8	9	94.8	86.8
Six New England States	13.5	383	3.9	5.9	8.2	6.8	125	87.7

State.	Percentage of excess of loans and discounts to total of capital and deposits in 1856 over 1896 on the same funds.	Percentage less interest charged in 1856 than in 1896 to pay the same dividends.	Total national and State banking capital per capita.		Circulation per capita.	
			1856.	1896.	1856.	1896.
Maine	34.5	25.72	.....	.....	\$7.69	\$8.08
Massachusetts	25.6	20.38	.....	.....	9.06	21.56
Vermont	46.5	31.74	.....	.....	12.60	10.34
Rhode Island	22.8	18.48	.....	.....	31.62	21.08
New York (except New York City)	50.1	33.37	.....	.....	7.48	3.67
New York City	* 10.4	19.42	.....	.....	10.32	13.65
Virginia and West Virginia	35.6	26.25	\$7.90	\$6.25	10.67	1.14
North Carolina	32.8	24.69	5.73	2.93	5.79	.44
South Carolina .....	.....	.....	21.65	2.96	9.24	.39
Georgia	31.8	23.36	12.05	3.08	6.33	.55
Louisiana	* 1.47	11.44	30.37	4.71	10.20	.89
Indiana	51.8	34.12	3.38	8.19	3.34	2.16
Michigan	9.22	8.44	1.54	10.71	.77	1.96
Six New England States	42.5	29.47	.....	.....	16.36	11.10

* Excess in 1896 over that of 1856.

† Excess charged in 1856 over that of 1896.

TABLE D.

Showing prices at which a 10-year 3½ per cent bond, interest payable quarterly, must be sold in order to realize the corresponding rate of interest, and the annual sinking fund necessary to liquidate principal at maturity (on \$100,000 par value bonds).

Price.	Interest.	Sinking fund.	Price.	Interest.	Sinking fund.
	<i>Per cent.</i>			<i>Per cent.</i>	
\$100.8867	2.4	\$63.36	\$106.4537	1.9	\$401.91
101.7821	2.3	131.35	106.8930	1.8	471.23
102.6863	2.2	198.00	107.3426	1.7	541.23
103.5904	2.1	265.30	108.3016	1.6	611.80
104.5215	2.0	333.27	109.2700	1.5	683.16

Sinking fund to extinguish premium (in each case above).

UNITED STATES TREASURY DEPARTMENT.

OFFICE OF GOVERNMENT ACTUARY,

January 5, 1898.

TABLE E.

Showing the amount of national-bank notes outstanding against bonds, the required 5 per cent deposit on such notes, and the amount of 5 per cent deposit in the Treasury of the United States at the end of each month for the calendar year 1897.

Month.	Outstanding against bonds.	Required 5 per cent deposit.	On deposit in Treasury.
January.....	\$213,186,711	\$10,659,335	.....
February.....	210,915,415	10,545,770	.....
March.....	209,787,702	10,488,385	.....
April.....	208,768,549	10,438,427	.....
May.....	207,139,381	10,356,909	\$882,801
June.....	206,695,226	10,334,761	2,853,650
July.....	206,498,956	10,324,947	2,878,859
August.....	205,755,976	10,287,708	2,863,257
September.....	205,604,781	10,280,239	5,111,388
October.....	203,928,960	10,196,347	4,055,894
November.....	201,735,572	10,086,778	2,606,492
December.....	196,146,083	9,807,304	2,144,861

J. F. MELINE,

Assistant Treasurer United States.

TREASURY DEPARTMENT, OFFICE OF THE TREASURER,

Washington, D. C., January 10, 1898.

TABLE F.

Showing the amount of redeemed national-bank notes in the Treasury of the United States unassorted by banks, the amount of such notes assorted by banks, but not delivered because of overdrafts in 5 per cent accounts, and the amount of the 5 per cent deposit to the credit of banks, at the end of each month for the calendar year 1897.

Month.	National-bank notes in Treasury unassorted.	National-bank notes in Treasury assorted.	Amount of 5 per cent deposit to credit of banks.
January.....	\$16,574,776	\$231,260	\$7,062,497
February.....	14,615,532	152,925	8,317,951
March.....	10,840,836	233,312	7,847,745
April.....	8,029,320	263,660	7,488,770
May.....	6,427,187	290,840	7,385,400
June.....	4,528,369	202,880	7,458,695
July.....	5,214,864	129,420	8,138,040
August.....	4,089,079	104,900	8,018,001
September.....	3,491,223	68,880	8,065,921
October.....	4,498,116	68,760	8,064,277
November.....	4,336,707	60,050	8,074,900
December.....	4,689,184	78,640	7,843,105

J. F. MELINE,
Assistant Treasurer United States.

TREASURY DEPARTMENT, OFFICE OF THE TREASURER,
Washington, D. C., January 10, 1898.

TABLE G.

Statement of the public debt of the Empire of Germany.

[Translated from the Almanach de Gotha for 1898.]

Debts contracted in order to meet various needs of the Empire: The nominal value of 450,000,000 of marks has been realized on bonds at 4 per cent, issued in pursuance of sundry laws; 790,000,000 marks, nominal value, were realized up to the end of October, 1895, on bonds at 3½ per cent; 885,355,100 marks, nominal value, were realized by April 1, 1896, on the remainder of old bonds, at 3½ per cent, reduced to the rate of 3 per cent, and also on new bonds at 3 per cent, issued in pursuance of the laws of March 17, 1890, January 22, 1891, January 22 and April 20, 1892, April 1, 1893, April 15, 1894, and March 29, 1895.

The total indebtedness of the Empire amounted, at the close of the fiscal year 1895-1896, to 2,245,273,100 marks.

Amount of sundry funds March 31, 1895: Invalid fund, 441,535,200 marks, and 3,173,600 Frankfort florins (equal to 5,440,457 marks) in bonds, and 733,236 marks in cash; total, 447,708,993 marks. War fund, 120,000,000 marks.

Statement of the public debt of France.

(Translated from the Almanach de Gotha for 1898.)

EXPENDITURES FOR THE DEBT, ACCORDING TO THE BUDGET FOR 1897.

	Francs.
Consolidated debt	692,680,335
Rentes at 3½ per cent (new fund)	237,638,406
Rentes at 3 per cent	456,041,929
Debt payable at a fixed time or in annual installments	325,961,455
3 per cent rentes redeemable in annual installments	141,888,078
Redemption of concessions for canals	321,440
Interest on and amortizement of the advance made by the Algerian company	4,070,000
Interest on and amortizement of bonds for country roads and building of schoolhouses	31,312,099
Conversion annuities of the Morgan loan	15,792,409
Annuity to Eastern Railway Company	20,500,000
Interest on security fund	9,162,000
Annual payments on obligations contracted for building military roads	462,841
Interest on the treasury floating debt	19,198,560
Annual payments due the railway companies	46,548,308
Interest on bonds issued to guarantee interest to the railway companies	2,482,500
Payment of part of the six-year bonds maturing in 1897	27,900,000
Payment, in annual installments, of the cost of the Madagascar expedition and of the Siam expedition	5,291,978
Payment, in annual installments, to the cities for the establishment of postal and telegraph stations	212,254
Payment, in annual installments, to the caisse des dépôts et consignations (Government deposit agency) for establishing a new growth of trees on the mountains	614,037
Small principals	204,951
Life debt	230,689,271
Life rentes (incomes)	753,490
Military pensions	129,204,000
Civil pensions	70,325,600
Pensions, indemnities, sundry relief payments	6,600,821
Annuities paid into the caisse des dépôts et consignations for the payment of pensions to old soldiers	8,700,000
Allowance to the Legion of Honor	10,998,820
Increase of salaries	4,106,540
Grand total	1,250,331,061

PRINCIPAL OF THE PUBLIC DEBT, ACCORDING TO THE COMPUTATION OF MR. C. FOUQUET.

At the close of—	Liabilities.	Assets.	Public debt.
	Francs.	Francs.	Francs.
1869	13,419,972,937	453,757,486	12,961,215,501
1875	24,579,854,814	1,136,809,322	23,443,044,992
1880	25,325,189,085	1,646,032,807	24,279,156,488
1885	29,216,648,502	961,230,567	28,255,417,935
1890	31,090,251,052	994,163,145	30,096,147,907
1891	31,600,747,872	1,179,588,946	30,481,158,926

Statement of the public debt of Great Britain.

[Translated from the Almanach de Gotha for 1898.]

PUBLIC DEBT.

March 31—	Consolidated debt.	Annual payments (approximately).	Nonconsolidated debt.	Total.
1893.....	£589,533,082	£60,761,490	£20,748,270	£671,042,842
1894.....	587,631,096	57,078,898	21,446,300	666,154,294
1895.....	586,015,919	53,582,722	17,400,300	656,998,941
1896.....	589,146,878	49,351,405	9,975,800	648,474,143
1897.....	587,698,732	44,941,947	8,133,000	640,773,679

SPECIFICATION OF THE PUBLIC DEBT ON THE 31ST DAY OF MARCH, 1897.

	Principal.	Charges.
Debt of Great Britain bearing interest at 2½ per cent.	£31,999,391	£800,645
Debt of Great Britain bearing interest at 2¼ per cent.	524,692,749	14,448,902
Loan taken from the Bank of England, bearing interest at 2½ per cent.	11,015,100	802,915
Total debt of Great Britain.....	567,707,240	15,552,462
Irish annuities at 2½ per cent.	305,198	8,214
Irish annuities at 2¼ per cent.	17,065,525	475,015
Loan at 2½ per cent made by the Bank of Ireland.....	2,630,769	72,346
Total debt of Ireland.....	19,991,492	555,575
Consolidated debt of Great Britain and Ireland.....	587,698,732	16,108,037
Approximate principal of annuities.....	44,941,947	7,149,743
Grand total.....	632,640,679	23,257,780
Nonconsolidated debt (Treasury bills)	8,133,000	112,534
Total consolidated debt, nonconsolidated debt, and annuities	640,773,679	23,370,314
Other obligations of the State	4,196,168	.....
Grand total.....	644,969,847	23,370,314
Deducting the probable amount to be collected, the value of the Suez Canal shares, etc.....	33,187,037	.....
	611,772,808	23,370,314

TABLE H.

Insolvent national banks, capital, claims paid, and difference between capital and claims paid, 1865 to 1897.

Banks.	Capital.	Claims paid.	Difference.
Venango National Bank, Franklin, Pa.....	\$300,000	\$101,387	\$198,613
Merchants' National Bank, Washington, D. C.....	200,000	165,769	34,231
Total, 1866.....	500,000	267,156	232,844
First National Bank, Medina, N. Y.....	50,000	32,305	17,695
Tennessee National Bank, Memphis, Tenn.....	100,000	65,335	34,665
National Unadilla Bank, Unadilla, N. Y.....	120,000	58,661	61,339
Croton National Bank, New York, N. Y.....	200,000	143,307	56,693
Total, 1867.....	470,000	299,608	170,392
National Bank of Vicksburg, Miss.....	50,000	16,654	33,346
Total, 1868.....	50,000	16,654	33,346
First National Bank, Rockford, Ill.....	50,000	29,277	20,723
First National Bank of Nevada, Austin, Nev.....	250,000	163,982	86,018
Total, 1869.....	300,000	193,259	106,741

Insolvent national banks, capital, claims paid, and difference between capital and claims paid, 1865 to 1897—Continued.

Remarks.	Capital.	Claims paid.	Difference.
Union Square National Bank, New York, N. Y.....	\$200,000	\$175,920	\$24,080
Waverly National Bank, Waverly, N. Y.....	106,100	77,563	28,537
First National Bank, Fort Smith, Ark.....	50,000	15,142	34,858
Total, 1872.....	356,100	268,630	87,470
Scandinavian National Bank, Chicago, Ill.....	250,000	143,209	106,791
National Bank of the Commonwealth, New York, N. Y.....	750,000	747,428	2,572
Merchants' National Bank, Petersburg, Va.....	400,000	259,487	140,513
First National Bank, Petersburg, Va.....	200,000	125,067	74,933
First National Bank, Carlisle, Pa.....	50,000	46,634	3,366
Total, 1873.....	1,650,000	1,322,425	327,575
First National Bank, Topeka, Kans.....	100,000	81,068	68,332
Total, 1874.....	100,000	81,068	68,332
First National Bank of Utah, Salt Lake City, Utah.....	150,000	19,002	130,998
Cook County National Bank, Chicago, Ill.....	500,000	228,412	271,588
Total, 1875.....	650,000	247,414	402,586
Miners' National Bank, Georgetown, Colo.....	150,000	135,797	14,203
Fourth National Bank, Chicago, Ill.....	200,000	18,258	181,742
First National Bank, Bedford, Iowa.....	30,000	12,024	17,976
First National Bank, Osceola, Iowa.....	50,000	34,536	15,464
First National Bank, Duluth, Minn.....	100,000	88,097	11,903
Watkins National Bank, Watkins, N. Y.....	75,000	60,647	14,353
First National Bank, Wichita, Kans.....	60,000	59,121	879
Total, 1876.....	665,000	409,680	255,320
First National Bank, Greenfield, Ohio.....	50,000	9,456	40,544
National Bank of the State of Missouri, St. Louis, Mo.....	2,500,000	2,165,388	334,612
First National Bank of Georgetown, Colo.....	75,000	73,890	1,110
Total, 1877.....	2,625,000	2,248,734	376,266
Central National Bank, Chicago, Ill.....	200,000	193,941	6,059
First National Bank, Kansas City, Mo.....	500,000	316,828	183,172
Commercial National Bank, Kansas City, Mo.....	100,000	52,514	47,486
First National Bank, Ashland, Pa.....	112,500	33,105	79,395
First National Bank, Allentown, Pa.....	250,000	79,725	170,275
First National Bank, Waynesburg, Pa.....	100,000	21,710	78,290
First National Bank, Dallas, Tex.....	50,000	29,377	20,623
People's National Bank, Helena, Mont.....	100,000	66,810	33,190
Merchants' National Bank, Fort Scott, Kans.....	50,000	16,670	33,330
Farmers' National Bank, Platte City, Mo.....	50,000	11,803	38,197
Total, 1878.....	1,512,500	822,483	690,017
German-American National Bank, Washington, D. C.....	130,000	105,763	24,237
German National Bank, Chicago, Ill.....	500,000	182,572	317,428
Second National Bank, Scranton, Pa.....	200,000	168,587	33,413
National Bank of Poultney, Vt.....	100,000	88,176	11,824
First National Bank, Monticello, Ind.....	50,000	20,998	29,002
Total, 1879.....	980,000	564,096	415,904
First National Bank, Meadville, Pa.....	100,000	96,176	3,824
First National Bank, Brattleboro, Vt.....	300,000	92,847	207,153
Total, 1880.....	400,000	196,023	203,977
City National Bank, Lawrenceburg, Ind.....	100,000	26,809	73,191
First National Bank, St. Albans, Vt.....	100,000	96,525	3,475
Hot Springs National Bank, Hot Springs, Ark.....	50,000	39,812	10,188
First National Bank, Livingston, Mont.....	50,000	25,006	24,994
First National Bank, Jamestown, N. Dak.....	50,000	8,807	41,193
Total, 1884.....	350,000	196,959	153,041
First National Bank, Sioux Falls, S. Dak.....	50,000	36,929	13,071
First National Bank, Angelica, N. Y.....	100,000	66,394	33,606
Total, 1888.....	150,000	103,323	46,677

CHANGES IN THE CURRENCY SYSTEM.

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Insolvent national banks, capital, claims paid, and difference between capital and claims paid, 1865 to 1897—Continued.

Banks.	Capital.	Claims paid.	Difference.
Palatka National Bank, Palatka, Fla.	\$50,000	\$9,492	\$40,508
First National Bank, Dansville, N. Y.	50,000	46,546	3,454
Total, 1887.....	100,000	56,038	43,962
Metropolitan National Bank, Cincinnati, Ohio.....	1,000,000	400,998	599,002
Madison National Bank, Madison, S. Dak.....	50,000	32,009	17,991
Total, 1888.....	1,050,000	433,007	616,993
National Bank of Shelbyville, Tenn.....	50,000	43,289	6,711
First National Bank, Sheffield, Ala.....	100,000	43,022	56,978
First National Bank, Abilene, Kans.....	100,000	66,221	33,779
Harper National Bank, Harper, Kans.....	50,000	20,410	29,590
Gloucester City National Bank, Gloucester City, N. J.....	50,000	16,047	33,953
Kingman National Bank, Kingman, Kans.....	100,000	51,600	48,400
Total, 1890.....	450,000	240,589	209,411
First National Bank, Alma, Kans.....	75,000	6,217	68,783
First National Bank, Belleville, Kans.....	50,000	30,516	19,484
First National Bank, Meade Center, Kans.....	50,000	9,363	40,637
American National Bank, Arkansas City, Kans.....	300,000	177,256	122,744
City National Bank, Hastings, Nebr.....	100,000	41,960	58,040
People's National Bank, Fayetteville, N. C.....	125,000	86,246	38,754
First National Bank, Ellsworth, Kans.....	50,000	44,692	5,308
Second National Bank, McPherson, Kans.....	50,000	21,705	28,295
Pratt County National Bank, Pratt, Kans.....	50,000	29,813	20,187
Keystone National Bank, Philadelphia, Pa.....	500,000	394,270	105,730
Spring Garden National Bank, Philadelphia, Pa.....	750,000	458,501	291,499
Asbury Park National Bank, Asbury Park, N. J.....	100,000	8,753	91,247
Ninth National Bank, Dallas, Tex.....	300,000	49,002	250,998
First National Bank, Red Cloud, Nebr.....	75,000	41,211	33,789
Central Nebraska National Bank, Broken Bow, Nebr.....	60,000	3,643	56,357
Florence National Bank, Florence, Ala.....	60,000	18,108	41,892
First National Bank, Palatka, Fla.....	150,000	142,748	7,252
First National Bank, Kansas City, Kans.....	150,000	84,413	65,587
Rio Grande National Bank, Laredo, Tex.....	100,000	21,927	78,073
First National Bank, Coldwater, Kans.....	52,000	18,196	33,804
Total 1891.....	3,147,000	1,688,576	1,458,424
California National Bank, San Diego, Cal.....	500,000	340,631	159,369
Huron National Bank, Huron, S. Dak.....	75,000	9,298	65,702
First National Bank, Downs, Kans.....	50,000	27,117	22,883
First National Bank, Muncy, Pa.....	100,000	80,636	19,364
Bell County National Bank, Temple, Tex.....	50,000	27,947	22,053
First National Bank, Deming, N. Mex.....	100,000	57,633	42,367
First National Bank, Silver City, N. Mex.....	50,000	33,188	16,812
Lima National Bank, Lima, Ohio.....	200,000	179,691	20,309
Cherryvale National Bank, Cherryvale, Kans.....	50,000	4,838	45,162
First National Bank, Erie, Kans.....	50,000	35,146	14,854
First National Bank, Rockwall, Tex.....	125,000	15,983	109,017
Total 1892.....	1,350,000	812,108	537,892
First National Bank, Del Norte, Colo.....	50,000	20,489	29,511
Newton National Bank, Newton, Kans.....	100,000	53,334	46,666
Capital National Bank, Lincoln, Nebr.....	300,000	150,020	149,980
Bankers and Merchants' National Bank, Dallas, Tex.....	500,000	61,343	438,657
First National Bank, Little Rock, Ark.....	500,000	63,275	436,725
Alabama National Bank, Mobile, Ala.....	150,000	73,051	76,949
First National Bank, Ponca, Nebr.....	50,000	24,103	25,897
Second National Bank, Columbia, Tenn.....	100,000	69,806	30,194
Columbia National Bank, Chicago, Ill.....	1,000,000	731,666	268,334
National Bank of North Dakota, Fargo, N. Dak.....	250,000	21,473	228,527
Evanston National Bank, Evanston, Ill.....	100,000	56,500	43,400
Oglethorpe National Bank, Brunswick, Ga.....	150,000	112,702	37,298
First National Bank, Lakota, N. Dak.....	50,000	4,107	45,893
First National Bank, Brady, Tex.....	50,000	34,489	15,511
Merchants' National Bank, Tacoma, Wash.....	250,000	111,174	138,826
City National Bank, Greenville, Mich.....	50,000	35,632	14,368
First National Bank, Whatcom, Wash.....	50,000	19,194	30,806
Columbia National Bank, New Whatcom, Wash.....	100,000	16,500	83,494
Nebraska National Bank, Beatrice, Nebr.....	100,000	76,512	23,488
Livingston National Bank, Livingston, Mont.....	50,000	45,830	4,170
First National Bank, Cedartown, Ga.....	75,000	86,619	86,381
Merchants' National Bank, Greatfalls, Mont.....	100,000	52,329	47,671

Insolvent national banks, capital, claims paid, and difference between capital and claims paid, 1865 to 1897—Continued.

Banks.	Capital.	Claims paid.	Difference.
First National Bank, Starkville, Miss.	\$60,000	\$13,920	\$46,080
Texas National Bank, San Antonio, Tex.	100,000	47,054	52,946
First National Bank, Vernon, Tex.	100,000	50,618	49,382
First National Bank, Middlesboro, Ky.	50,000	14,669	35,331
First National Bank, Hot Springs, S. Dak.	50,000	9,350	40,650
First National Bank, Marion, Kans.	50,000	32,935	17,065
Washington National Bank, Tacoma, Wash.	100,000	70,979	29,021
El Paso National Bank, El Paso, Tex.	150,000	103,859	46,141
National Granite Bank, Exeter, N. H.	50,000	46,878	3,122
Chamberlain National Bank, Chamberlain, S. Dak.	50,000	17,151	32,849
Port Townsend National Bank, Port Townsend, Wash.	100,000	6,008	93,992
First National Bank, Sundance, Wyo.	50,000	25,468	24,532
Commercial National Bank, Denver, Colo.	250,000	167,686	82,314
First National Bank, Dayton, Tenn.	50,000	42,387	7,613
Total, 1893.	5,935,000	2,519,296	2,415,704
Hutchinson National Bank, Hutchinson, Kans.	100,000	23,938	76,062
First National Bank, Spokane, Wash.	250,000		250,000
Oregon National Bank, Portland, Oreg.	200,000	113,757	86,243
First National Bank, Fort Payne, Ala.	50,000	8,010	41,990
Third National Bank, Detroit, Mich.	300,000	185,583	114,417
First National Bank, Llanu, Tex.	75,000	15,190	59,810
American National Bank, Springfield, Mo.	200,000	87,347	112,653
First National Bank, Sedalia, Mo.	250,000	26,018	223,982
National Bank of Pendleton, Oreg.	100,000	54,355	45,645
State National Bank, Wichita, Kans.	100,000	55,067	44,933
German National Bank, Denver, Colo.	200,000	137,838	59,058
Black Hills National Bank, Rapid City, S. Dak.	75,000	15,902	59,098
First National Bank, Arlington, Oreg.	50,000	14,662	35,338
Baker City National Bank, Baker City, Oreg.	75,000	51,118	23,882
First National Bank, Grant, Nebr.	50,000	2,233	47,767
Wichita National Bank, Wichita, Kans.	250,000	88,284	161,716
State National Bank, Vernon, Tex.	100,000	17,371	82,629
National Bank of Middletown, Pa.	85,000	64,910	20,090
First National Bank, Kearney, Nebr.	150,000	43,394	106,606
Total, 1894.	2,860,000	1,004,947	1,855,053
Buffalo County National Bank, Kearney, Nebr.	100,000	9,916	90,084
First National Bank, Johnson City, Tenn.	50,000	27,828	22,172
Citizens' National Bank, Madison, S. Dak.	50,000	9,445	40,555
Citizens' National Bank, Spokane, Wash. (rif.)	150,000	18,781	131,219
Tacoma National Bank, Tacoma, Wash.	200,000	20,478	179,522
City National Bank, Qunah, Tex.	100,000	41,826	58,174
North Platte National Bank, North Platte, Nebr.	75,000	69,257	5,743
Needles National Bank, Needles, Cal.	50,000		50,000
First National Bank, San Bernardino, Cal.	100,000	83,617	16,383
Browne National Bank, Spokane, Wash.	100,000		100,000
First National Bank, Anacortes, Wash.	50,000	4,217	45,783
Holdrege National Bank, Holdrege, Nebr.	75,000		75,000
National Bank of Kansas City, Mo.	1,000,000	629,506	370,494
First National Bank, Texarkana, Tex.	50,000	37,249	12,751
First National Bank, Ravenna, Nebr.	50,000	9,011	40,989
City National Bank, Fort Worth, Tex.	300,000	173,549	126,451
First National Bank, Dublin, Tex.	50,000	4,617	45,383
First National Bank, Port Angeles, Wash.	50,000	2,118	47,882
First National Bank, Ida Grove, Iowa	150,000		150,000
First National Bank, Pella, Iowa	50,000	29,348	20,652
Merchants' National Bank, Seattle, Wash.	200,000	87,959	112,041
Union National Bank, Denver, Colo.	500,000	177,492	322,508
Superior National Bank, West Superior, Wis.	135,000	100,285	34,715
Keystone National Bank, West Superior, Wis.	200,000	74,114	125,886
First National Bank, South Bend, Wash.	50,000	17,255	32,745
Kearney National Bank, Kearney, Nebr.	100,000	9,980	90,020
First National Bank, Wellington, Kans.	50,000	8,305	41,695
Columbia National Bank, Tacoma, Wash.	350,000	37,878	312,122
Total, 1895.	4,885,000	1,684,121	2,700,879
First National Bank, Orlando, Fla.	85,000		85,000
Bellingham Bay National Bank, New Whatcom, Wash.	60,000	13,604	46,396
Chattahoochee National Bank, Columbus, Ga.	100,000	58,543	41,457
German National Bank, Lincoln, Nebr.	100,000	12,063	87,937
Farmers' National Bank, Portsmouth, Ohio	250,000	151,512	98,488
Humboldt First National Bank, Humboldt, Kans.	60,000	28,758	31,242
Grand Forks National Bank, Grand Forks, N. Dak.	200,000	27,147	172,853
First National Bank, Bedford City, Va.	50,000	26,561	23,439
National Bank of Jefferson, Jefferson, Tex.	100,000	73,916	26,084
Sumner National Bank, Wellington, Kans.	100,000	21,408	78,592

Insolvent national banks, capital, claims paid, and difference between capital and claims paid, 1865 to 1897—Continued.

Banks.	Capital.	Claims paid.	Difference.
First National Bank, Cheney, Wash.....	\$50,000	\$6,447	\$43,553
Kittitas Valley National Bank, Ellensburg, Wash.....	50,000	7,069	42,931
First National Bank, Minot, N. Dak.....	50,000	10,053	39,947
Yates County National Bank, Penn Yan, N. Y.....	50,000	31,746	18,254
First National Bank, Larned, Kans.....	50,000	25,086	24,914
Citizens' National Bank, San Angelo, Tex.....	100,000	17,052	82,948
Sioux National Bank, Sioux City, Iowa.....	300,000	122,833	177,167
American National Bank, New Orleans, La.....	200,000	76,952	123,048
First National Bank, Helena, Mont.....	800,000	.....	800,000
Bennett National Bank, New Whatcom, Wash.....	50,000	17,068	32,932
First National Bank, Springville, N. Y.....	50,000	43,220	6,774
First National Bank, Mount Pleasant, Mich.....	50,000	15,775	34,225
First National Bank, Ithaca, Mich.....	50,000	24,088	25,912
City National Bank, Tyler, Tex.....	100,000	33,110	66,890
Total, 1896.....	3,055,000	844,015	2,210,985

TABLE I.
Loans, etc., per capita deposits, and circulation of the national banking associations of the United States October 5, 1897.

Reserve cities.	Resources.										Gold coin.
	Loans and discounts.	United States bonds to secure circulation.	Legal-tender notes.	Capital stock paid in.	Surplus fund.	Undivided profits, less expenses, etc.	Total of capital, surplus, and undivided profits.	National bank notes outstanding.	Individual deposits.		
New York City.....	\$408,335,475.15	\$18,930,000.00	\$27,672,648.00	\$48,600,000.00	\$42,892,000.00	\$17,511,993.47	\$109,033,983.47	\$16,183,457.50	\$341,886,806.23	\$18,237,220.50	
Chicago.....	86,832,905.07	1,350,000.00	13,518,145.00	19,700,000.00	3,254,900.00	2,006,271.33	29,971,171.33	616,365.00	70,692,162.85	14,354,240.00	
St. Louis.....	32,060,316.20	2,077,000.00	4,136,688.00	8,100,000.00	1,706,000.00	685,455.00	10,791,455.00	1,852,290.00	21,676,339.80	1,354,372.50	
Total central reserve cities.....	527,228,697.02	22,366,000.00	45,327,481.00	76,700,000.00	52,862,900.00	20,233,719.89	149,706,619.89	18,652,022.50	434,255,368.88	33,945,833.00	
Boston.....	164,807,923.87	8,777,000.00	7,185,894.00	50,350,000.00	15,054,578.53	4,320,020.09	69,724,598.62	7,576,892.50	120,834,342.12	7,192,615.50	
Albany.....	8,303,219.94	400,000.00	420,103.00	1,550,000.00	1,388,000.00	198,950.11	3,136,950.11	349,590.00	6,808,166.19	490,423.00	
Brooklyn.....	12,357,365.76	642,000.00	880,854.00	1,352,000.00	2,270,000.00	3,985,771.95	4,017,701.95	573,030.00	17,381,864.96	541,325.80	
Philadelphia.....	102,577,519.47	8,212,500.00	2,328,719.00	21,915,000.00	14,083,000.00	3,087,775.05	39,685,775.05	7,184,875.00	103,701,935.10	1,658,448.00	
Pittsburg.....	45,599,629.32	5,339,250.00	2,164,719.00	12,300,000.00	9,070,200.00	1,912,278.34	23,882,478.34	4,727,372.50	40,398,688.05	3,379,140.70	
Baltimore.....	33,076,943.27	2,739,000.00	646,775.00	13,243,290.00	4,941,625.00	1,198,300.64	19,383,185.64	2,433,060.00	24,734,818.03	1,720,153.00	
Washington.....	8,842,737.16	879,150.00	407,031.00	2,875,000.00	1,249,500.00	279,632.34	4,394,132.34	672,745.00	13,837,279.14	673,639.00	
Savannah.....	1,174,800.91	102,000.00	71,040.00	750,000.00	225,000.00	54,271.84	1,029,271.84	90,355.00	543,444.24	29,000.00	
New Orleans.....	11,630,881.62	872,000.00	1,530,588.00	2,300,000.00	2,310,000.00	339,109.86	4,949,109.86	758,645.00	13,380,301.27	745,283.50	
Louisville.....	7,444,660.81	1,575,000.00	558,721.00	3,000,000.00	651,000.00	216,024.93	3,867,024.93	1,413,320.00	4,366,138.50	588,367.50	
Houston.....	2,029,754.00	200,000.00	1,215,564.00	1,150,000.00	537,300.00	89,836.29	1,787,136.29	139,660.00	2,772,032.19	340,291.00	
Cincinnati.....	23,778,025.25	5,436,000.00	1,938,063.00	7,800,000.00	2,740,000.00	1,143,351.95	11,631,351.95	4,820,450.00	19,244,420.35	1,066,570.00	
Cleveland.....	28,471,475.47	1,550,000.00	1,076,290.00	9,550,000.00	2,085,000.00	740,876.62	12,375,876.62	1,332,810.00	21,083,266.89	1,408,110.00	
Detroit.....	14,368,492.12	1,150,000.00	632,478.00	3,300,000.00	2,065,000.00	256,839.49	4,161,839.49	989,790.00	10,916,819.87	1,346,697.40	
Milwaukee.....	15,522,444.52	720,000.00	1,313,917.00	3,250,000.00	575,000.00	275,564.75	4,100,584.75	623,390.00	22,534,156.64	1,838,175.00	
Des Moines.....	2,651,371.74	292,200.00	225,028.00	800,000.00	221,000.00	47,700.35	1,068,706.35	259,137.50	1,582,470.63	138,115.00	
St. Paul.....	8,801,064.18	252,000.00	634,897.00	3,800,000.00	855,000.00	850,568.98	5,505,568.98	212,550.00	9,506,325.61	1,996,843.88	
Minneapolis.....	9,920,950.15	300,000.00	1,083,740.00	4,500,000.00	491,000.00	375,760.68	5,366,760.68	206,347.50	8,805,070.27	842,312.50	
Kansas City.....	15,006,817.56	250,000.00	1,300,000.00	2,300,000.00	480,000.00	215,508.27	2,995,508.27	225,000.00	11,368,177.89	495,147.50	
St. Joseph.....	1,906,817.73	150,000.00	146,827.00	350,000.00	103,484.00	45,748.62	489,272.62	134,100.00	1,934,953.00	87,837.50	
Lincoln.....	1,796,169.69	150,000.00	52,671.00	800,000.00	35,000.00	17,013.34	852,013.34	135,000.00	1,300,852.92	159,270.00	
Omaha.....	9,147,514.35	600,000.00	972,344.00	2,750,000.00	325,500.00	120,767.18	4,186,267.18	331,805.00	7,864,090.78	856,057.50	
San Francisco.....	9,183,553.70	150,000.00	2,000.00	2,500,000.00	1,500,000.00	211,206.40	2,712,206.40	90,000.00	6,811,902.47	2,601,667.50	
Other reserve cities.....	536,832,108.37	40,738,100.00	26,798,890.00	153,485,280.00	63,006,187.53	16,392,837.08	232,884,284.61	35,479,135.00	471,984,505.65	30,284,490.78	
All reserve cities.....	1,064,000,805.30	63,104,100.00	72,126,371.00	220,185,290.00	115,869,087.53	30,626,556.97	382,680,904.50	54,131,157.50	906,230,874.53	64,280,323.78	
Maine.....	23,539,800.02	5,887,700.00	338,754.00	11,171,000.00	2,689,338.00	1,797,012.00	15,657,350.00	3,518,253.00	17,370,750.10	983,937.29	
New Hampshire.....	11,025,416.51	3,956,750.00	242,457.00	5,830,000.00	1,182,237.04	560,864.80	7,773,222.00	3,514,295.00	9,658,708.78	438,228.86	

Loans, etc., per capita deposits, and circulation of the national banking associations of the United States October 5, 1897—Continued.

Reserve cities,	Resources.									
	Loans and discounts.	United States bonds to secure circulation.	Legal tender notes.	Capital stock paid in.	Surplus fund.	Undivided profits, less expenses, etc.	Total of capital, surplus, and undivided profits.	National bank notes outstanding.	Individual deposits.	Gold coin.
Oklahoma	\$427,513.47	\$62,500.00	\$46,000.00	\$250,000.00	\$33,000.00	\$14,505.92	\$237,505.92	\$54,970.00	\$675,808.91	\$15,770.00
Indian Territory	1,084,917.35	153,500.00	71,763.00	585,000.00	125,750.00	41,541.18	762,291.18	127,680.00	1,105,294.73	26,355.00
Western States.....	68,540,614.09	7,507,150.00	4,042,029.00	28,014,100.00	5,092,418.15	3,301,905.50	36,408,423.74	6,662,790.50	86,038,545.11	7,018,087.56
Washington	6,705,943.20	913,900.00	170,954.00	4,388,000.00	705,820.16	390,923.84	5,484,744.00	839,967.50	10,109,342.88	1,441,156.50
Oregon	6,351,552.12	1,032,800.00	36,458.00	3,020,000.00	553,738.96	825,384.54	4,399,121.30	818,157.50	8,695,950.45	1,635,265.00
California	10,896,318.41	1,638,250.00	52,579.00	5,060,000.00	1,043,950.00	664,717.84	6,768,677.84	1,377,445.00	12,090,856.65	1,989,900.00
Idaho	1,066,699.04	137,500.00	61,458.00	600,000.00	246,478.77	139,875.71	986,154.51	164,210.00	3,270,243.44	135,409.50
Utah	2,461,804.30	812,500.00	28,844.00	1,750,000.00	397,417.96	232,154.19	2,379,572.15	425,640.00	3,801,728.92	699,203.80
Nevada	212,104.71	20,500.00	82,000.00	82,000.00	8,000.00	1,536.29	91,536.29	18,450.00	231,037.95	15,200.00
Arizona	797,824.00	175,250.00	38,137.00	400,000.00	46,500.00	50,424.02	496,824.02	146,830.00	1,135,478.93	136,815.00
Pacific States.....	28,582,305.86	4,810,100.00	359,480.00	15,300,000.00	3,001,905.85	2,304,816.26	20,606,722.11	3,790,530.00	38,203,639.22	6,144,008.80
Total country banks.....	986,948,632.78	164,379,850.00	35,093,558.00	401,302,835.00	130,475,932.80	51,780,423.53	585,559,191.33	144,789,512.50	947,109,253.97	54,625,883.87
United States.....	2,051,009,438.17	227,483,950.00	107,219,920.00	631,488,065.00	246,345,020.33	88,406,980.50	966,240,065.83	198,920,670.00	1,853,349,128.50	118,856,207.65

TABLE I—Continued.
Loans, etc., per capita deposits, and circulation of the national banking association of the United States October 5, 1897—Continued.

Name of bank.	Resources.										Circulation per capita.
	Gold Treasury certificates.	Gold clearing-house certificates.	Total of gold coin, gold treasury certificates, and gold clearing-house certificates.	Reserve required.	Reserve held.	Ratio of reserve.	Cash reserve required.	Cash reserve held.	Population June 1, 1897.	Deposit per capita.	
New York City.....	\$6,771,340.00	\$52,985,000.00	\$77,983,560.50	\$5 per cent.	\$126,724,386.29	\$137,349,548.15	27.10	\$125,881,363.79	\$136,506,525.65	1,875,000	\$8.63
Chicago.....	2,824,430.00	.....	17,178,670.00	20,428,631.73	38,117,032.55	36.06	20,370,131.73	38,058,532.55	1,575,000	44.88	3.39
St. Louis.....	236,770.00	.....	1,591,142.50	8,255,349.16	8,172,096.60	24.75	8,161,931.66	8,078,678.10	550,000	39.41	3.36
Total central reserve cities.....	9,832,540.00	52,985,000.00	96,763,373.00	161,408,367.18	183,638,677.30	28.44	160,413,427.18	182,643,737.30	4,000,000	108.56	4.66
Boston.....	1,386,430.00	.....	8,579,075.50	38,491,875.83	48,207,211.26	31.31	19,048,455.42	20,136,110.89	520,000	232.56	14.57
Albany.....	336,250.00	.....	835,673.00	2,600,381.02	3,920,114.74	37.78	1,291,100.51	1,338,389.50	98,000	69.47	3.56
Brooklyn.....	180,000.00	.....	731,325.80	4,160,285.23	4,665,448.57	28.04	2,065,697.62	1,991,772.89	1,025,000	16.97	5.56
Philadelphia.....	214,140.00	6,445,000.00	8,317,588.00	29,803,110.33	38,313,418.26	32.05	14,717,093.51	22,216,757.55	1,250,000	82.90	5.74
Pittsburg.....	404,750.00	.....	3,783,890.70	11,413,771.87	14,318,222.45	31.36	5,588,025.31	7,253,776.10	288,000	135.56	15.86
Baltimore.....	352,790.00	.....	2,072,943.00	7,159,634.05	9,200,555.46	32.13	3,519,014.53	5,068,637.87	530,000	46.66	4.59
Washington.....	630,750.00	.....	1,304,389.00	3,427,698.37	5,136,107.90	37.45	1,686,371.93	2,979,446.60	280,000	49.42	2.40
Savannah.....	2,000.00	.....	31,000.00	146,487.00	325,860.02	55.61	70,972.03	189,500.00	56,000	97.04	1.61
New Orleans.....	141,180.00	.....	886,463.50	3,465,497.69	4,190,652.43	30.23	1,713,128.84	3,165,509.99	270,000	49.55	2.80
Louisville.....	5,000.00	.....	583,367.50	2,202,067.08	3,422,968.14	38.86	1,065,686.04	1,184,425.09	186,000	22.05	7.12
Houston.....	185,960.00	.....	476,251.00	848,658.12	2,651,234.96	78.10	419,829.08	1,962,386.80	35,000	79.22	3.99
Cincinnati.....	310,880.00	.....	1,397,450.00	7,410,795.95	9,696,379.03	32.71	3,584,404.82	4,589,356.42	340,000	56.60	14.17
Cleveland.....	248,000.00	.....	1,716,110.00	6,206,197.99	8,006,600.08	32.25	3,068,904.99	3,011,576.00	340,000	63.77	3.92
Detroit.....	14,160.00	.....	1,360,857.40	4,515,454.70	6,290,135.19	34.85	2,232,406.51	2,250,080.85	278,000	39.27	3.56
Milwaukee.....	.....	.....	1,838,175.00	5,940,681.56	10,368,597.11	43.63	2,954,140.78	3,329,607.00	268,000	84.69	2.36
Des Moines.....	3,480.00	.....	141,595.00	827,612.27	1,146,814.76	34.64	407,259.14	414,315.25	68,000	23.27	3.81
St. Paul.....	.....	.....	1,996,843.88	3,379,677.46	7,315,420.86	54.11	1,684,192.23	3,180,155.68	175,000	54.32	1.21
Minneapolis.....	8,500	.....	850,812.50	2,388,884.18	4,917,402.22	48.11	1,187,692.09	2,052,337.70	210,000	39.55	1.98
Kansas City.....	21,120	.....	516,267.50	5,694,696.44	9,012,601.25	39.57	2,841,676.22	2,787,818.22	165,000	68.89	1.36
St. Joseph.....	7,980	.....	95,817.50	702,354.90	1,183,338.66	42.12	337,824.95	358,291.10	60,000	32.25	2.03
Lincoln.....	.....	.....	159,270.00	411,000.46	510,238.68	31.04	202,125.23	239,468.00	65,000	20.93	2.08
Omaha.....	30,520	.....	886,573.09	3,304,763.09	5,533,450.51	41.96	1,640,881.54	2,161,739.73	190,000	41.39	2.80
San Francisco.....	.....	.....	2,601,667.50	2,104,813.83	2,900,129.23	34.45	1,049,031.91	2,653,088.07	340,000	20.03	2.23
Other reserve cities.....	4,433,890	6,445,000	41,163,380.78	146,010,313.12	200,841,891.55	34.25	72,390,011.18	94,514,507.30	7,059,000	66.86	5.03
All reserve cities.....	14,269,430	59,430,000	137,926,753.78	308,018,680.30	384,480,508.85	31.21	232,809,438.36	277,158,244.60	11,059,000	81.94	4.89

Loans, etc., per capita deposits, and circulation of the national banking association of the United States October 5, 1897—Continued.

Name of bank.	Resources.									
	Gold Treasury certificates.	Gold clearing-house certificates.	Total of gold coin, gold Treasury certificates, and gold clearing-house certificates.	Reserve required.	Reserve held.	Ratio of reserve.	Cash reserve required.	Cash reserve held.	Population June 1, 1897.	Deposit per capita.
Maine.	\$24,920.00		\$1,008,857.29	16 per cent.	\$5,976,737.39	32.24	\$1,008,760.64	\$1,580,630.69	684,000.00	\$7.63
New Hampshire.	3,060.00		441,318.86	1,671,129.09	3,520,814.41	31.60	600,894.14	877,371.76	383,000.00	9.03
Vermont.	24,250.00		322,652.65	1,413,585.45	2,959,590.28	31.83	494,307.18	854,397.02	344,000.00	11.27
Massachusetts.	191,750.00		3,453,308.06	13,083,311.82	22,682,081.75	26.00	4,841,203.33	7,311,394.10	1,422,000.00	9.23
Rhode Island.	101,520.00		3,813,894.58	3,181,315.09	3,813,351.68	27.41	1,130,328.04	1,813,973.06	399,000.00	17.07
Connecticut.	376,220.00		2,340,632.20	5,341,044.86	10,580,208.33	29.71	1,973,360.94	3,715,454.14	851,000.00	9.47
New England States.	720,750.00		8,580,763.34	27,471,044.18	51,571,844.84	28.16	10,050,852.27	16,155,281.77	4,799,000.00	36.43
New York.	598,560.00		4,350,636.27	14,013,238.24	25,856,931.07	27.68	5,302,485.64	8,065,486.57	3,925,000.00	33.70
New Jersey.	255,470.00	\$35,000.00	2,033,333.36	8,732,702.57	17,297,137.05	30.00	3,305,605.37	5,466,250.00	1,780,000.00	9.81
Pennsylvania.	407,000.00		6,069,975.27	17,789,724.27	31,717,539.65	28.53	6,712,805.37	12,354,470.27	4,481,000.00	32.95
Delaware.	15,000.00		400,975.04	1,789,807.22	1,534,401.45	28.50	301,629.68	478,470.27	183,000.00	3.77
Maryland.	24,480.00		400,805.98	1,692,401.91	3,318,932.62	28.38	644,175.81	1,164,505.53	680,000.00	2.66
District of Columbia.	42,000.00		178,955.00	126,016.05	3,334,465.62	43.38	45,000.66	279,905.80	12,000.00	18.55
Eastern States.	1,273,430.00	35,000.00	13,187,529.85	42,987,218.92	85,099,462.92	29.00	16,400,728.29	27,810,626.48	11,013,000.00	3.62
Virginia.	11,860.00		595,620.85	2,372,065.47	4,814,123.71	30.57	909,142.49	1,696,401.90	1,768,000.00	1.12
West Virginia.	41,280.00		457,543.47	1,263,303.90	2,613,714.44	31.03	480,758.99	1,016,147.33	844,000.00	1.30
North Carolina.	1,180.00		308,580.50	819,374.58	1,445,732.19	26.47	314,397.53	670,930.66	1,780,000.00	3.00
South Carolina.			123,438.50	601,136.70	942,794.02	23.53	231,798.18	610,930.66	1,280,000.00	3.35
Georgia.	8,350.00		274,948.10	953,211.02	1,687,579.45	26.71	363,941.83	1,104,061.08	2,090,000.00	3.21
Florida.	150.00		300,443.65	585,275.95	1,209,487.65	32.41	238,414.38	555,731.30	1,090,000.00	6.03
Alabama.	38,100.00		380,913.60	907,122.18	1,959,776.52	32.41	341,212.87	992,730.40	1,675,000.00	3.05
Mississippi.	500.00		77,265.50	303,776.39	589,123.29	28.10	117,240.36	304,802.36	1,444,000.00	1.15
Louisiana.			60,661.50	245,680.46	585,223.10	30.73	109,502.38	300,998.45	2,698,000.00	1.93
Texas.	64,760.00		1,746,343.40	4,743,037.91	11,015,151.65	34.84	1,813,241.07	5,661,694.17	2,698,000.00	11.89
Arkansas.	2,610.00		1,101,912.00	2,867,430.62	556,713.92	31.23	101,908.45	258,846.54	1,380,000.00	1.19
Kentucky.	20,080.00		743,184.50	1,966,345.17	4,511,058.36	34.42	721,177.29	1,357,853.75	1,887,000.00	1.72
Tennessee.	124,050.00		1,251,997.05	2,708,755.71	5,615,232.84	31.37	1,051,606.48	2,865,679.79	1,924,000.00	6.80
Southern States.	312,900.00		6,192,806.62	17,776,008.12	37,608,637.14	31.73	6,784,432.10	17,431,956.82	20,278,000.00	5.75
Ohio.	123,210.00		3,912,938.73	9,475,190.01	22,072,416.58	34.94	3,583,657.94	8,340,316.40	3,547,000.00	2.57
Indiana.	149,800.00		4,917,899.80	15,595,640.63	35,505,640.63	41.29	1,898,843.64	6,100,391.62	2,448,000.00	14.07
Illinois.	280,800.00		8,116,194.73	7,443,758.18	17,773,264.59	35.82	2,867,182.97	5,756,206.63	2,936,000.00	1.86

Michigan.....	30,340.00	4,154,721.07	9,244,456.24	33.38	1,609,413.43	2,570,523.26	2,090,000.00	13.12	1.23
Wisconsin.....	23,140.00	3,174,330.05	7,418,475.31	35.06	1,250,797.22	2,308,884.85	1,760,000.00	11.87	1.10
Minnesota.....	16,450.00	2,355,393.25	6,862,153.81	37.40	919,487.30	1,455,814.50	1,384,000.00	11.56	1.82
Iowa.....	137,790.00	4,257,581.37	9,513,943.45	33.52	1,637,071.95	3,308,151.60	2,005,000.00	12.55	1.62
Missouri.....	7,510	1,168,484.47	2,582,495.61	33.15	440,899.49	811,581.78	2,427,000.00	3.26	1.42
Middle States.....	769,220	36,977,358.29	88,083,525.22	35.73	14,194,263.94	30,676,930.79	16,091,000.00	13.12	1.64
North Dakota.....	1,260	843,877.29	2,561,566.57	40.20	329,181.12	532,364.20	252,000.00	22.57	1.65
South Dakota.....	2,400	647,210.62	1,711,524.08	39.67	250,354.75	536,437.32	387,000.00	10.89	1.10
Nebraska.....	1,500	1,751,723.19	4,038,779.58	34.56	673,519.08	1,162,066.72	1,145,000.00	9.66	1.19
Kansas.....	30,640	2,929,681.40	7,849,181.33	40.19	1,130,461.63	2,193,494.80	1,342,000.00	14.29	1.57
Montana.....	2,000	1,553,365.18	4,530,575.62	43.86	610,002.47	1,272,487.75	225,000.00	46.47	2.37
Wyoming.....	178,849.60	3,365,457.04	1,128,148.44	42.83	134,321.92	253,139.75	86,000.00	30.83	2.22
Colorado.....	89,960.00	4,582,688.08	13,879,002.55	45.43	1,810,323.97	6,067,713.65	517,000.00	54.45	2.19
New Mexico.....	1,500.00	435,019.42	973,604.01	33.57	167,923.57	210,505.40	197,000.00	14.09	1.54
Oklahoma.....	13,770.00	97,011.94	301,925.30	40.68	37,678.77	87,271.46	219,000.00	3.08	1.25
Indian Territory.....	26,355.00	172,560.12	549,360.46	47.75	66,462.84	150,376.30	209,000.00	5.57	1.61
Western States.....	129,320.00	13,407,593.88	37,234,467.94	41.06	5,230,240.22	12,488,657.41	4,579,000.00	18.78	1.45
Washington.....	12,200.00	1,453,355.50	3,582,092.39	35.78	593,831.57	1,700,000.58	468,000.00	21.00	1.79
Oregon.....	20.00	485,235.00	3,153,417.73	22.63	569,377.29	1,807,338.95	423,000.00	19.92	1.59
California.....	21,750.00	2,075,650.00	1,839,138.73	22.92	704,203.14	2,305,538.85	1,155,000.00	15.17	1.19
Idaho.....	1,240.00	108,749.50	3,098,812.72	40.18	134,464.14	276,492.25	151,000.00	15.92	1.08
Utah.....	6,540.00	705,802.80	1,654,446.82	43.12	215,769.23	750,841.95	272,000.00	13.97	1.56
Nevada.....	16,200.00	575,467.08	1,596,653.33	25.75	14,693.28	30,890.00	45,000.00	15.57	2.41
Arizona.....	128,815.00	160,108.47	479,375.35	42.52	64,511.39	179,301.60	73,000.00	15.55	2.01
Pacific States.....	41,850.00	6,245,863.80	13,845,619.76	35.08	2,291,841.00	7,160,903.18	2,597,000.00	14.74	1.46
Total country banks.....	3,247,470.00	57,968,353.87	144,539,352.89	32.32	54,932,357.82	111,724,386.45	61,957,000.00	15.28	2.34
United States.....	17,513,900.00	59,525,000.00	695,922,125.77	31.70	287,741,798.18	388,882,631.05	73,016,000.00	25.38	2.72

TABLE K.

Capital, deposits, loans, specie, and circulation per capita of State banks, 1860.

	Population.	Capital.	Deposits.	Loans.	Specie.	Circulation.
Maine	628,279	\$11.95	\$3.98	\$20.14	\$1.07	\$8.60
New Hampshire	326,073	15.28	3.79	26.97	.75	10.23
Vermont	315,098	12.20	2.58	21.41	.59	12.01
Massachusetts	1,231,066	54.00	24.57	96.79	5.33	20.31
Rhode Island	174,620	119.49	20.35	153.02	2.58	20.37
Connecticut	460,147	46.98	11.97	66.32	2.07	16.74
Total of New England States	3,135,283	39.97	13.99	65.20	2.89	15.16
New York	3,880,735	28.71	26.82	51.63	5.39	7.72
New Jersey	672,035	11.67	8.54	22.19	1.40	7.16
Pennsylvania	2,906,215	8.80	9.00	17.32	2.88	4.52
Delaware	112,216	14.02	8.70	28.07	1.86	10.12
Maryland	687,049	18.29	12.91	30.41	4.04	5.98
District of Columbia	75,080					
Total of Eastern States	8,333,330	19.09	17.50	34.76	3.90	6.39
Virginia	1,506,318	10.02	4.84	15.64	1.84	6.14
West Virginia						
North Carolina	992,622	6.67	1.50	12.30	1.63	5.64
South Carolina	703,708	21.26	5.92	39.51	3.30	16.31
Georgia	1,057,286	15.78	4.48	15.86	3.04	8.32
Florida	140,424	2.13	.92	3.31	.23	1.30
Alabama	964,201	5.08	5.03	14.07	2.85	7.75
Mississippi	791,305					
Louisiana	708,002	34.60	27.93	50.00	17.11	16.35
Texas	604,215					
Arkansas	445,450					
Kentucky	1,155,644	11.10	4.93	21.87	3.89	11.70
Tennessee	1,109,801	7.27	3.89	10.59	2.04	4.99
Total of Southern States	10,259,016	10.22	5.15	16.40	3.10	7.21
Ohio	2,339,511	2.94	1.72	4.74	.78	3.41
Indiana	1,350,428	3.21	1.28	5.67	1.17	3.96
Illinois	1,711,951	3.06	.41	.23	.13	5.24
Michigan	749,113	1.01	.50	1.19	.03	.29
Wisconsin	775,881	9.81	3.97	9.79	.54	5.71
Minnesota	172,023					
Iowa	674,913	.68	.78	1.07	.38	.83
Missouri	1,182,012	7.68	2.84	13.08	3.52	6.67
Total of Middle States	8,955,832	3.84	1.51	4.89	.95	3.96
Total	30,683,461	13.81	8.35	23.02	2.69	6.85

Blanks indicate no returns for 1860.

TABLE J.

[Report of the Comptroller of the Currency, December 6, 1897, pages 385, 397, 444, and 589.]

	Capital.	Capital, surplus, and profits.	Deposits.
National banks	\$631,488,095	\$966,340,096	\$1,853,349,128
State banks	228,677,088	331,036,112	723,610,795
Add 12½ per cent of State banks failing to report.	a 32,668,155	a 47,290,873	a 103,377,257
Total	892,833,338	1,344,567,081	2,680,367,180
Probable increase (25 per cent)	223,208,334	336,141,770	670,001,795
Total	1,116,041,672	1,680,708,851	3,350,458,975

	Cash reserve required.	Cash reserve held.	Total reserve required.	Total reserve held.
National banks	\$287,741,796	\$388,882,631	\$452,558,033	\$695,922,126
State banks		152,000,000		
Add 12½ per cent of State banks failing to report.		22,000,000		
Total	287,741,796	562,882,631	452,558,033	695,922,126
Probable increase (25 per cent)		140,720,658		
Total	287,741,796	703,603,289	452,558,033	695,922,126

a Estimated.

Currency that would be immediately taken out under the Walker bill (H. R. 3333) and probable amount by 1900.

By H. R. 3333, of the \$346,000,000 legal-tender notes, currency would take the place of.....	\$146,000,000
By H. R. 3333, of the \$376,000,000 silver certificates, currency would take the place of.....	200,000,000
By H. R. 3333, of the \$229,000,000 national-bank notes, currency would take the place of....	229,000,000
Total	575,000,000
Probable increase by 1900	225,000,000
Probable circulation in 1900	800,000,000

TABLE M.

Volume of circulation.

IN THE MASSACHUSETTS BANKS OUTSIDE OF BOSTON IN 1856.

The circulation of 27.8 per cent of them averaged from 80 to 100 per cent to capital.
The circulation of 33.3 per cent of them averaged from 60 to 80 per cent to capital.
The circulation of 31.5 per cent of them averaged from 40 to 60 per cent to capital.
The circulation of 7.4 per cent of them averaged under 40 per cent to capital.

IN THE NEW HAMPSHIRE BANKS IN 1856.

The circulation of 31.4 per cent of them averaged from 80 to 100 per cent to capital.
The circulation of 35.3 per cent of them averaged from 60 to 80 per cent to capital.
The circulation of 27.4 per cent of them averaged from 40 to 60 per cent to capital.
The circulation of 5.9 per cent of them averaged under 40 per cent to capital.

TABLE L.
Capital, deposits, loans and discounts, specie, and circulation outstanding, per capita, national and State banks, 1897.

Cities, States, and Territories.	Capital.		Deposits.		Loans and discounts.		Specie.		Circulation outstanding.	Circulation, at \$12 per capita.
	National banks.	State and National banks.	National banks.	State and National banks.	National banks.	State and National banks.	National banks.	State and National banks.		
New York City.....	\$25.92		\$182.34		\$217.77		\$43.94		\$8.63	\$22,500,000
Chicago.....	12.51		44.88		55.13		13.80		.39	18,900,000
St. Louis.....	15.27		39.41		58.29		42.38		3.36	6,600,000
Total of central reserve cities.....	19.17		108.56		131.81		26.62		4.66	48,000,000
Boston.....	94.82		232.56		316.94		21.39		14.57	6,240,000
Albany.....	15.82		69.47		84.73		9.37		3.56	1,176,000
Brooklyn.....	1.52		16.56		12.09		1.04		.56	12,300,000
Philadelphia.....	17.53		102.00		122.09		9.84		5.74	15,000,000
Pittsburg.....	41.98		123.85		153.02		17.93		13.86	2,578,000
Baltimore.....	24.69		46.60		62.44		8.96		4.39	6,360,000
Washington.....	16.27		46.02		62.44		8.96		4.40	3,350,000
Savannah.....	13.39		97.04		20.08		2.32		1.01	3,672,000
New Orleans.....	8.53		49.55		42.68		5.30		2.90	3,276,000
Louisville.....	15.15		22.05		37.59		3.16		7.93	2,576,000
Indianapolis.....	32.60		75.22		57.90		21.34		3.60	4,320,000
Cincinnati.....	22.94		56.60		69.94		5.60		14.17	4,080,000
Cleveland.....	28.09		63.27		83.74		5.83		3.92	4,080,000
Detroit.....	11.87		39.27		51.70		7.52		2.36	3,336,000
Milwaukee.....	12.13		84.08		57.92		7.52		2.36	3,336,000
Des Moines.....	11.76		23.27		38.90		2.78		2.81	816,000
St. Paul.....	21.71		54.30		44.30		14.54		1.21	2,100,000
Minneapolis.....	21.43		39.55		41.30		4.56		1.98	2,520,000
Kansas City.....	13.91		68.80		90.95		9.92		1.36	1,980,000
St. Joseph.....	5.81		32.25		31.78		3.52		2.23	720,000
Lincoln.....	12.31		20.83		27.63		2.87		2.08	780,000
Omaha.....	19.74		41.39		48.14		6.26		2.80	2,280,000
San Francisco.....	7.35		20.03		24.06		7.80		.23	4,080,000
Total of other reserve cities.....	21.74		66.86		76.05		8.01		5.03	84,708,000
Total of all reserve cities.....	20.81		81.94		96.22		14.74		4.89	132,708,000
Maine.....	16.33		25.39		34.44		1.82		7.63	8,208,000
New Hampshire.....	14.98		24.83		28.34		1.63		9.03	4,698,000

Vermont.....	20.91	27.74	27.74	36.80	36.80	1.91	11.27	4,008,000
Massachusetts.....	20.53	36.43	39.30	61.59	51.59	2.25	9.23	25,704,000
Rhode Island.....	48.46	48.93	50.80	52.47	82.79	2.82	17.67	4,788,000
Connecticut.....	25.31	2.63	40.95	5.65	58.46	3.52	9.47	10,212,000
Total of New England States.....	22.68	2.53	36.43	4.44	58.46	2.39	9.87	57,588,000
New York.....	8.07	4.44	23.70	28.24	100.40	1.39	3.84	47,100,000
New Jersey.....	8.12	1.98	32.12	3.86	33.49	1.89	2.81	21,360,000
Pennsylvania.....	9.18	1.46	26.52	7.17	48.06	1.89	3.85	58,532,000
Delaware.....	11.20	3.68	28.16	6.10	39.91	1.87	3.77	2,220,000
Maryland.....	5.86	1.00	17.31	2.64	39.33	1.12	2.66	7,800,000
District of Columbia.....	21.00	10.71	69.17	50.36	50.36	22.52	18.35	144,000
Total of Eastern States.....	8.46	2.08	25.95	15.53	67.83	1.71	3.62	132,156,000
Virginia.....	2.63	3.29	8.68	8.65	18.30	.53	1.12	21,216,000
West Virginia.....	3.90	3.96	9.47	12.15	18.30	.53	1.40	10,608,000
North Carolina.....	1.52	1.15	3.00	1.90	6.35	.24	.36	21,860,000
South Carolina.....	1.48	1.72	2.73	.98	6.41	.21	.85	15,860,000
Georgia.....	1.56	1.83	3.21	3.01	6.40	.27	.43	25,080,000
Florida.....	2.32	1.61	3.83	3.49	9.75	.54	.60	5,952,000
Alabama.....	2.00	1.45	3.65	.56	4.21	.34	.63	20,100,000
Mississippi.....	.59	2.48	1.41	5.31	7.63	.10	.15	17,828,000
Louisiana.....	.87	1.91	1.93	5.80	10.21	.19	.21	11,904,000
Texas.....	6.96	.16	11.89	2.27	14.70	.18	1.53	32,376,000
Arkansas.....	.90	.99	1.32	2.07	3.76	.12	.19	16,320,000
Kentucky.....	4.63	7.46	6.54	11.91	27.24	.49	1.72	22,644,000
Tennessee.....	4.55	1.34	8.95	2.83	13.72	1.01	.80	23,088,000
Total of Southern States.....	2.94	2.09	5.75	4.25	12.56	.50	.80	243,336,000
Ohio.....	7.85	2.56	18.13	8.89	37.01	1.36	2.97	42,564,000
Indiana.....	5.74	1.99	14.07	4.07	16.83	1.82	1.89	29,376,000
Illinois.....	6.05	1.61	16.36	4.72	34.53	1.34	1.80	35,232,000
Michigan.....	4.21	5.09	13.12	23.45	32.80	.69	1.53	25,188,000
Wisconsin.....	3.87	3.54	11.87	12.67	27.54	.97	1.10	21,432,000
Minnesota.....	3.52	3.50	10.95	9.66	27.54	.82	.82	16,596,000
Iowa.....	5.92	4.23	12.55	7.90	24.78	1.07	1.62	24,780,000
Missouri.....	1.55	6.26	3.26	21.59	36.72	.21	.42	28,128,000
Total of Middle States.....	5.15	3.40	13.12	11.76	31.11	1.10	1.64	224,292,000
North Dakota.....	6.49	4.24	22.57	10.31	28.13	.98	1.65	3,024,000
South Dakota.....	4.38	5.26	16.80	10.69	17.33	.80	1.10	4,644,000
Nebraska.....	5.17	5.88	21.68	13.02	28.51	.80	1.19	12,740,000
Kansas.....	6.38	5.58	13.96	13.02	28.51	1.11	1.57	16,104,000
Montana.....	11.80	1.86	46.47	31.50	28.57	.27	2.37	2,700,000
Wyoming.....	10.00	1.84	30.82	21.25	23.47	2.83	2.22	1,032,000
Colorado.....	10.12	3.87	54.45	9.39	42.76	8.40	2.19	6,304,000

a Includes reserve cities.

Capital, deposits, loans and discounts, specie, and circulation outstanding, per capita, national and State banks, 1897—Continued.

Cities, States, and Territories.	Capital.			Deposits.			Loans and discounts.			Specie.			Circulation outstanding.	Circulation, at \$12 per capita.
	National banks.	State banks.	National and State banks.	National banks.	State banks.	National and State banks.	National banks.	State banks.	National and State banks.	National banks.	State banks.	National and State banks.		
New Mexico.....	\$3.05	\$1.23	\$4.28	\$14.09	\$4.05	\$18.14	\$7.87	\$2.65	\$10.52	\$0.73	.....	.....	\$1.54	\$2,364,000
Oklahoma.....	1.14	2.80	3.94	3.08	6.85	9.93	1.95	5.01	6.96	1.98	.....	.....	.25	2,628,000
Indian Territory.....	2.85	.....	2.85	5.57	.....	5.57	5.19	.....	5.19	.38	.....	.....	.61	2,508,000
Total of Western States.....	6.12	4.80	11.33	18.78	9.98	20.26	14.97	9.28	25.33	1.84	.....	.....	1.45	54,948,000
Washington.....	9.38	3.98	13.30	21.60	5.56	27.16	14.52	4.85	19.37	3.46	.....	.....	1.79	5,016,000
Oregon.....	6.97	2.39	9.27	19.92	2.12	22.04	14.67	2.65	17.32	4.09	.....	.....	1.89	5,196,000
California.....	4.37	23.75	28.81	10.47	40.32	52.97	9.43	47.56	60.32	1.93	.....	.....	1.19	13,860,000
Idaho.....	3.97	4.40	4.37	15.03	1.82	16.85	7.06	.81	7.87	1.42	.....	.....	1.08	1,812,000
Utah.....	6.43	2.56	8.69	13.97	2.58	16.55	9.05	3.24	12.29	2.70	.....	.....	1.56	2,284,000
Nevada.....	1.82	7.18	9.00	5.57	16.27	15.84	4.71	10.65	15.36	.45	.....	.....	.41	540,000
Arizona.....	5.48	3.25	8.73	15.55	14.40	29.95	10.93	8.07	19.00	1.93	.....	.....	2.01	876,000
Total of Pacific States.....	5.89	13.51	19.57	14.74	22.57	37.35	11.01	26.08	38.00	2.61	.....	.....	1.46	31,164,000
Total of county banks.....	6.48	.....	.....	15.28	.....	.....	15.93	.....	.....	1.23	.....	.....	2.34	745,484,000
Total of United States.....	8.65	3.35	11.79	25.38	10.57	35.29	28.99	9.81	37.28	3.28	.....	.....	2.72	876,192,000

a Includes reserve cities.

b No satisfactory returns.

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, D. C., January 7, 1898.

SIR: I have the honor to reply to yours of the 6th instant in which you inquire as to the maximum amount that under bill H. R. 5181 could be at any time in the division of issue and redemption and the minimum amount that would at any time be in such fund while in successful operation under the bill. I will say in answer that it is contemplated there would be in that department in gold coin and greenbacks a total of \$325,000,000, neither more nor less. Through interchangeability, as is provided in that bill, with the fiscal department this equilibrium would be maintained—that is to say, if the fiscal department having gold and desiring greenbacks could exchange with the issue and redemption division as if it were an individual institution on the outside.

On the other hand, if the issue and redemption division became pressed for gold through redemption of greenbacks, it could restore its stock of gold by applying to the fiscal department for gold in exchange for its surplus greenbacks. If the fiscal department did not have the gold, it would be the duty of the Secretary of the Treasury to provide it. The proposition put forward by the President, though not embodied in this bill, to authorize the Secretary of the Treasury to borrow \$100,000,000 on short time loans for any of the purposes of the Treasury Department would, it is believed, put the Secretary in a position which would enable him to do this effectually.

Very truly, yours,

L. J. GAGE, *Secretary.*

HON. J. H. WALKER,
*Chairman Committee on Banking and Currency,
House of Representatives.*

TABLE O.

*Interindebtedness in the United States in 1892, prepared by Hon. J. H. Walker, chairman
of Committee on Banking and Currency.*

Census of 1890, assessed valuations: Assets of the country, real and personal property	\$25, 000, 000, 000
Secretary of Treasury:	
Gold and silver coin	1, 200, 000, 000
Total	26, 200, 000, 000
National debt less cash in Treasury	852, 000, 000
Census of 1890:	
State debt less sinking fund	223, 000, 000
County debt less sinking fund	142, 000, 000
Town and city debt less sinking fund	470, 000, 000
Porter: School district debt	38, 000, 000
Poor's Manual, railroad indebtedness:	
Funded debt	5, 106, 000, 000
Unfunded debt	376, 000, 000
Current debt	271, 000, 000
New York Financial Review, 1890: Miscellaneous stocks and bonds ..	582, 000, 000
Farm mortgages	1, 086, 000, 000
Home mortgages	1, 017, 000, 000
Other town and city property mortgages	3, 887, 000, 000
Estimated debts of merchants	5, 000, 000, 000
Debts of individuals and families	400, 000, 000

Comptroller of the Currency:	
Deposits in mutual savings banks	\$1,402,000,000
Deposits in stock savings banks	252,000,000
Deposits in private savings banks	95,000,000
Deposits in loan and trust companies	353,000,000
National banks	1,588,000,000
State banks	557,000,000
New York Daily Commercial Bulletin:	
Annual fire insurance losses, \$125,000,000; life of policy, three years	375,000,000
Marine insurance	50,000,000
Life insurance in force	3,543,000,000
Industrial business insurance	313,000,000
Benevolent associations and fraternal orders	6,000,000,000
Interindebtedness in the country	34,208,000,000

TABLE P.

No. 1.—Statement showing the average amount of moneys in the United States Treasury against which no gold certificates, silver certificates, currency certificates, or Treasury notes of 1890 are issued for the calendar years 1891 to 1897, inclusive; also the average rate of interest on the total outstanding bonds of the United States during the same years.

Period.	Amount.	Average rate of interest.	Period.	Amount.	Average rate of interest.
Year ended Dec. 31—		Per cent.	Year ended Dec. 31—		Per cent.
1891	\$204,616,370	3.989	1895	\$220,882,810	4.067
1892	168,042,142	3.913	1896	235,531,592	4.058
1893	153,029,798	3.918	1897	268,220,944	4.058
1894	165,196,848	3.997			

OFFICE OF THE TREASURER UNITED STATES,
January 13, 1898.

No. 2.—Statement showing the average balance of free money of all kinds in the United States Treasury for the calendar years 1891 to 1897, inclusive; also the average rate of interest on the total outstanding bonds of the United States during the same years.

Period.	Balance.	Average rate of interest.	Period.	Balance.	Average rate of interest.
Year ended Dec. 31—		Per cent.	Year ended Dec. 31—		Per cent.
1891	\$154,664,513	3.989	1895	\$180,343,496	4.067
1892	129,931,453	3.913	1896	244,880,507	4.058
1893	113,370,900	3.918	1897	222,271,010	4.058
1894	124,045,795	3.997			

OFFICE OF THE TREASURER UNITED STATES,
January 12, 1898.

TABLE Q.

No. 1.—*Profit on national-bank note circulation to a bank with \$100,000 capital.*

[Secretary Lyman J. Gage bill, H. R. bill 5181.]

Locality.	Amount of 2½ per cent bonds depos- ited.	Circulation (\$100,000) and uninvest- ed capital.	Receipts.		
			Interest on cir- culation less \$10,000 redemption fund, \$20,000 idle.	Interest on bonds.	Gross re- ceipts.
4 per cent	\$80,000.00	\$120,000.00	\$3,600.00	\$2,000.00	\$4,800.00
6 per cent	80,000.00	120,000.00	5,400.00	2,000.00	6,200.00

Locality.	Deductions.			Net receipts.	Interest on cost of bonds and un- invested capital.	Profit on circulation.	
	Expense.	Tax.	Total.			Amount.	Per cent on \$100,000 currency.
4 per cent	\$62.50	\$900.00	\$962.50	\$4,837.50	\$4,000.00	\$837.50	0.837
6 per cent	62.50	900.00	962.50	6,437.50	6,000.00	437.50	.437

No. 2.—*Profit on national-bank note circulation to banks with \$100,000 capital (eleventh year and after).*

[Monetary Commission bill, H. R. 5855.]

	Maximum circulation.	Loanable funds.	Receipts: Interest on loanable funds, less \$20,000 idle, \$5,000 re- demption fund, \$5,000 guaranty fund.	Deductions.		
				Tax, 2 per cent on \$20,000, 6 per cent on \$20,000, one- fourth of 1 per cent on capital.	Expense.	Total.
4 per cent	\$100,000.00	\$200,000.00	\$6,800.00	\$1,850.00	\$62.50	\$1,912.50
6 per cent	100,000.00	200,000.00	10,200.00	1,850.00	62.50	1,912.50

	Net receipts.	Interest on \$100,000 capital.	Profit on circulation.	
			Amount.	Per cent on \$100,000 currency.
4 per cent	\$4,837.50	\$4,000.00	\$837.50	\$0.837
6 per cent	8,287.50	6,000.00	2,287.50	2.287

No. 3.—*Profit on national-bank note circulation to banks with \$100,000 capital (first five years).*

[Monetary Commission bill H. R. 5855.]

Locality.	Class of bonds.	Cost of bonds deposited (at $\frac{3}{4}$ per cent upon a 5 per cent basis).	Maximum circulation.	Loanable funds.	Receipts.		
					Interest on total loanable funds less \$20,000 idle, \$5,000 redemption funds, \$5,000 guaranty funds.	Interest on bonds.	Gross receipts.
4 per cent.....	4's	\$28,018.50	\$100,000.00	\$178,981.50	\$5,750.26	\$923.87	\$6,674.13
Do.....	N 4's	27,311.53	100,000.00	172,688.47	5,707.54	843.90	6,551.44
Do.....	5's	25,671.65	100,000.00	174,328.35	5,773.13	1,125.28	6,898.41
6 per cent.....	4's	28,018.50	100,000.00	173,918.50	8,638.89	923.87	9,562.76
Do.....	N 4's	27,311.53	100,000.00	172,688.47	8,561.31	843.90	9,405.21
Do.....	5's	25,671.65	100,000.00	174,328.35	8,650.70	1,125.28	9,775.98

Locality.	Deductions.				Net receipts.	Interest on \$100,000 capital.	Profit on circulation.	
	Tax, 3 per cent on \$20,000, 6 per cent on \$20,000, one-fourth of 1 per cent tax on capital.	Expenses.	Sinking fund to liquidate premium paid on bonds.	Total.			Amount.	Per cent on \$100,000 currency.
4 per cent.....	1850	\$62.50	\$254.82	\$2,163.82	\$4,516.31	\$4,000.00	\$516.31	0.516
Do.....	1850	62.50	128.21	2,040.71	4,510.73	4,000.00	510.73	.511
Do.....	1850	62.50	482.27	2,864.77	4,533.64	4,000.00	533.64	.534
6 per cent.....	1850	62.50	230.40	2,142.90	7,419.86	6,000.00	1,419.86	1.420
Do.....	1850	62.50	92.81	2,005.31	7,599.90	6,000.00	1,599.90	1.406
Do.....	1850	62.50	435.04	2,347.54	7,437.44	6,000.00	1,437.44	1.437

No. 4.—*Profit on national-bank note circulation to a bank with \$100,000 capital.*

[Chairman J. H. Walker's bill, H. R. 3333.—When in full operation.]

Locality.	Maximum circulation.	Receipts: Interest on circulation and capital less \$4,000 redemption fund, \$20,000 idle.	Deductions.			Net receipts.	Interest on capital.	Profit on circulation.	
			Expenses.	Tax one-fifth to one-half of 1 per cent on \$75,000, estimated at one-half of 1 per cent.	Total.			Amount.	Per cent on \$100,000 currency.
4 per cent.....	\$100,000.00	\$7,040.00	\$62.50	\$375.00	\$437.50	\$6,602.50	\$4,000.00	\$2,602.50	2.603
6 per cent.....	100,000.00	10,560.00	62.50	375.00	437.50	10,122.50	6,000.00	4,122.50	4.122
8 per cent.....	100,000.00	14,080.00	62.50	375.00	437.50	13,642.50	8,000.00	5,642.50	5.642
10 per cent.....	100,000.00	17,600.00	62.50	375.00	437.50	17,162.50	10,000.00	7,162.50	7.162

Profit on circulation to a bank with \$100,000 capital.

[H. R. 80.]

Locality.	Remarks.	Maximum circulation.*	Receipts.		Deductions.			Interest on capital.	Profit on circulation.	
			Interest on idle capital and circulation, less redemption fund.	Interest on bonds.	Total.	Expense.	Tax.		Total.	Amount.	Per cent.
4 per cent.										
First 25 years.....	Reserve city.....	\$200,000	\$6,200	\$2,000	\$8,200	\$62.50	\$4,450	\$4,000	\$312.50	Loss, 0.812
First 25 years.....	Other city.....	200,000	6,600	2,000	8,600	62.50	4,450	4,000	87.50	Gain, 0.087
After 1925.....	Reserve city.....	100,000	6,200	.....	6,200	62.50	† 0	4,000	2,137.50	Gain, 2.137
After 1925.....	Other city.....	100,000	6,600	.....	6,600	62.50	† 0	4,000	2,537.50	Gain, 2.537
6 per cent.										
First 25 years.....	Reserve city.....	200,000	9,300	2,000	11,300	62.50	4,450	6,000	787.50	Gain, 0.787
First 25 years.....	Other city.....	200,000	9,900	2,000	11,900	62.50	4,450	6,000	1,387.50	Gain, 1.387
After 1925.....	Reserve city.....	100,000	9,300	.....	9,300	62.50	(†) 0	6,000	3,237.50	Gain, 3.237
After 1925.....	Other city.....	100,000	9,900	.....	9,900	62.50	(†) 0	6,000	3,837.50	Gain, 3.837

* At the start the banks must have \$100,000 circulation of United States bond notes, and may have \$100,000 national bank notes. After 1925 it can not have any United States bond notes.

† Minimum.

Profit on national bank note circulation to banks with \$100,000 capital, \$75,000 circulation.

[H. R. bill 5355.]

Locality.	Cost of bonds deposited at 4 per cent upon a 3 per cent basis.	Circulation.	Loanable funds.	Receipts.			Deductions.			Interest on \$100,000 capital.	Profit on capital due to circulation.	
				Interest on loanable funds, less \$15,000 idle, \$3,750 redemption fund, \$3,750 guaranty fund.	Interest on bonds.	Gross receipts.	Tax 2 per cent on capital and 2 per cent on \$15,000.	Expenses.	Sinking fund to liquidate premium paid on bonds.		Amount.	Per cent.
4 per cent.....	\$24,224.36	\$75,000	\$143,773.64	\$5,050.95	\$932.89	\$5,983.84	\$550	\$46.87	\$254.06	\$4,000	\$1,116.18	1.116
6 per cent.....	24,224.36	75,000	143,773.64	7,576.42	932.89	8,509.31	550	46.87	228.08	6,000	1,683.86	1.684

Profit on national bank note circulation to banks with \$100,000 capital, \$50,000 circulation.

[H. R. bill 5355.]

Locality.	Cost of bonds deposited at 4 per cent upon a 3 per cent basis.	Circulation.	Loanable funds.	Receipts.			Deductions.			Interest on \$100,000 capital.	Profit on capital due to circulation.	
				Interest on loanable funds, less \$10,000 idle, \$2,500 redemption fund, \$2,500 guaranty fund.	Interest on bonds.	Gross receipts.	Tax 2 per cent on capital.	Expenses.	Sinking fund to liquidate premium paid on bonds.		Amount.	Per cent.
4 per cent.....	\$24,224.36	\$50,000	\$123,773.64	\$4,350.95	\$932.89	\$5,283.84	\$250	\$31.25	\$254.06	\$4,000	\$747.43	0.747
6 per cent.....	24,224.36	50,000	123,773.64	6,526.42	932.89	7,459.31	250	31.25	228.08	6,000	949.43	0.949

TABLE E.
Profit on national bank note circulation to banks with \$100,000 capital, \$75,000 circulation.
[H. R. bill 5181.]

Locality.	Amount of 2½ per cent bonds de- posited.	Circulation (\$75,000) and unin- vested capital.	Receipts.			Deductions.			Interest on capital.	Net receipts.	Profit on capital due to circulation.	
			Interest on circulation less \$10,000 idle and \$7,500 re- demption fund.	Interest on bonds.	Gross receipts.	Expenses.	Tax.	Total.			Amount.	Per cent.
4 per cent.....	\$80,000	\$115,000	\$3,900	\$1,500	\$5,400	\$46.87	\$875	\$721.87	\$4,000	\$4,678.13	\$678.13	0.678
6 per cent.....	60,000	115,000	5,850	1,500	7,350	46.87	875	721.87	6,000	6,628.13	628.13	.628

Profit on national bank note circulation to banks with \$100,000 capital, \$50,000 circulation.
[H. R. bill 5181.]

Locality.	Amount of 2½ per cent bonds de- posited.	Circulation (\$50,000) and unin- vested capital.	Receipts.			Deductions.			Interest on capital.	Net receipts.	Profit on capital due to circulation.	
			Interest on circulation less \$10,000 idle and \$5,000 re- demption fund.	Interest on bonds.	Gross receipts.	Expenses.	Tax.	Total.			Amount.	Per cent.
4 per cent.....	\$50,000	\$100,000	\$3,400	\$1,250	\$4,650	\$31.25	\$250	\$281.25	\$4,000	\$4,363.75	\$363.75	0.369
6 per cent.....	50,000	100,000	5,100	1,250	6,350	31.25	250	281.25	6,000	6,068.75	68.75	.689

TABLE 8.

Profit on national bank note circulation to a bank with \$100,000 capital, \$100,000 circulation, \$40,000 idle.

[H. R. bill 50.]

Locality.	Circulation \$100,000. Bonds de- posited.	Receipts.			Deductions.			Interest on capital.	Loss on capital due to circulation.	
		Interest on idle capital and circula- tion, less \$40,000 idle.	Interest on bonds.	Gross receipts.	Ex- penses.	Tax $\frac{1}{2}$ per cent.	Total.		Amount.	Per cent.
4 per cent	\$100,000	\$2,400	\$2,000	\$4,400	\$62.50	\$250	\$312.50	\$4,087.50	Gain \$87.50	Gain 0.087
6 per cent	100,000	3,600	2,000	5,600	62.50	250	312.50	5,287.50	Loss 712.50	Loss .712

Profit on national bank note circulation to a bank with \$100,000 capital, \$100,000 circulation, \$60,000 idle.

[H. R. bill 50.]

Locality.	Circulation \$100,000. Bonds de- posited.	Receipts.			Deductions.			Interest on capital.	Loss on capital due to circulation.	
		Interest on idle capital and circula- tion, less \$60,000 idle.	Interest on bonds.	Gross receipts.	Ex- penses.	Tax $\frac{1}{2}$ per cent.	Total.		Amount.	Per cent.
4 per cent	\$100,000	\$1,600	\$2,000	\$3,600	\$62.50	\$250	\$312.50	\$3,287.50	Loss \$712.50	Loss 0.712
6 per cent	100,000	2,400	2,000	4,400	62.50	250	312.50	4,087.50	Loss 1,912.50	Loss 1.912

TABLE T.
Profit on national bank circulation to a bank with \$100,000 capital, \$75,000 circulation.
[H. R. bill 3333.]

Locality.	Circulation.	Receipts. Interest on cir- culation and capital, less \$15,000 idle and \$2,750 redemp- tion fund.	Deductions.			Net receipts.	Interest on capital.	Profit on capital due to circulation.	
			Expenses.	Tax (4 per cent on \$82,250).	Total.			Amount.	Per cent.
4 per cent	\$75,000	\$8,200	\$46.87	\$281.25	\$308.12	\$5,981.88	\$4,000	\$1,981.88	1.982
6 per cent	75,000	9,435	46.87	281.25	308.12	9,126.88	6,000	3,126.88	3.127

Profit on national bank note circulation to a bank with \$100,000 capital, \$50,000 circulation.
[H. R. bill 3333.]

Locality.	Circulation.	Receipts. Interest on cir- culation and capital, less \$10,000 idle and \$1,800 redemp- tion fund.	Deductions.			Net receipts.	Interest on capital.	Profit on capital due to circulation.	
			Expenses.	Tax (4 per cent on \$28,500).	Total.			Amount.	Per cent.
4 per cent	\$50,000	\$5,540	\$31.25	\$142.50	\$173.75	\$5,366.25	\$4,000	\$1,366.25	1.366
6 per cent	50,000	8,310	31.25	142.50	173.75	8,136.25	6,000	2,136.25	2.136

TABLE U.

Profit on national bank note circulation to banks with \$100,000 capital, all invested in bonds (twos, fours, new fours, and fives).

[Present law.]

Locality.	Cost of bonds.	Maximum circulation.	Receipts.		Deductions.			Interest on capital invested.	Profit on capital due to circulation.	
			Interest on circulation, less \$15,463.	Interest on bonds.	Total.	Expenses.	Sinking fund to liquidate premium.		Amount.	Per cent.
4 per cent.....	\$100,000	\$77,926	\$2,474.44	\$3,565.64	\$6,040.08	\$328.79	\$875.01	\$4,000	\$333.28	0.338
6 per cent.....	100,000	77,926	3,711.66	3,565.64	7,277.30	328.79	783.73	6,000	Loss 333.22	Loss .333

Profit on national bank note circulation to banks with \$100,000 capital, \$75,000 of capital invested in bonds.

[Present law.]

Locality.	Cost of bonds.	Maximum circulation.	Receipts.		Deductions.			Interest on capital invested.	Profit due to circulation.	
			Interest on circulation and uninvested capital, less \$11,539 idle.	Interest on bonds.	Total.	Expenses.	Sinking fund.		Amount.	Per cent.
4 per cent.....	\$75,000	\$57,994	\$2,855.80	\$2,674.23	\$5,530.03	\$620.10	\$656.25	\$4,000	\$253.68	0.254
6 per cent.....	75,000	57,994	4,283.80	2,674.23	6,958.03	620.10	587.79	6,000	Loss 249.68	Loss .250

TABLE V.

Tables showing the effect of taking out currency under the various bills and in varying amounts, in compelling banks to charge a higher rate of interest, or enabling them to reduce the rate of interest and pay the same dividends on their stock as they would if they had no currency.

\$100,000 CAPITAL BANKS.

	On capital.		On the 80 per cent of currency in circulation.		Depletion of capital in taking out the currency.
	4 per cent.	6 per cent.	4 per cent.	6 per cent.	
In cases where they take out all the currency they can on their capital with 20 per cent not in circulation:					
Under the commission bill, 5856 (average).....	Profit 0.520	Profit 1.419	0.650	1.775	\$24,322.89
Under the Gage bill, 5181.....	Profit 0.637	Profit 0.437	0.796	0.504	80,000.00
Under the Fowler bill, 50.....	Profit 0.087	Profit 1.387	0.109	1.798	100,000.00
Under the Walker bill, 3333.....	Profit 2.602	Profit 4.123	3.253	5.153	-----
Under the existing law.....	Profit 0.333	Loss 0.333	Profit 0.652	Loss 0.642	100,000.00
Taking \$75,000 currency with 20 per cent not in circulation:					
Under the commission bill, 5856.....	Profit 1.116	Profit 1.684	1.960	2.806	25,226.36
Under the Gage bill, 5181.....	Profit 0.678	Profit 0.628	1.130	1.046	80,000.00
Under the Fowler bill, 50.....	Loss 0.087	Loss 0.712	0.145	Loss 1.187	100,000.00
Under the Walker bill, 3333.....	Profit 1.982	Profit 3.127	3.30	5.211	-----
Under the existing law.....	Profit 0.254	Loss 0.250	Profit 0.546	Loss 0.538	25,000.00
Taking \$50,000 currency with 20 per cent not in circulation:					
Under the commission bill, 5856.....	Profit 0.747	Profit 0.949	1.818	2.373	25,226.36
Under the Gage bill, 5181.....	Profit 0.369	Profit 0.069	0.902	0.171	40,000.00
Under the Fowler bill, 50.....	Loss 0.712	Loss 1.912	Loss 1.781	Loss 4.781	100,000.00
Under the Walker bill, 3333.....	Profit 1.366	Profit 2.136	3.415	5.34	-----
Under the existing law.....	Profit 0.169	Loss 0.167	Profit 0.547	Loss 0.539	50,000.00

TABLE W.

Statement showing the average daily available cash balance, including the gold reserve, in the Treasury of the United States, compiled from the daily statements as rendered during the years from 1880 to 1897, inclusive, and is obtained by taking the mean between the highest and lowest available balance in each month of each year named.

Period.*	Averagedaily available cash balance.	Period.*	Averagedaily available cash balance.
Year ended December 31—		Year ended December 31—	
1880.....	\$146,399,606	1889.....	\$175,337,501
1881.....	146,070,800	1890.....	167,762,822
1882.....	136,438,964	1891.....	151,889,371
1883.....	141,579,686	1892.....	130,184,302
1884.....	143,521,015	1893.....	115,109,142
1885.....	168,601,005	1894.....	121,627,668
1886.....	194,915,452	1895.....	178,746,349
1887.....	165,346,364	1896.....	243,592,509
1888.....	215,058,007	1897.....	224,128,758

OFFICE OF THE TREASURER UNITED STATES, January 23, 1898.

* From \$30,000,000 to \$50,000,000 should be added, averages \$40,000,000 to each "balance" for agency accounts. They will be found on page 37 of hearings, etc., before the Committee on Banking and Currency, 54th Congress; and also in Table P, page 398 of this volume.—J. H. W.

TABLE X.

Statement showing the total amount of "gold coin and gold certificates paid into the Treasury of the United States from any source, in the regular way of business, for each month of the year ended December 31, 1897."

Period.	Gold coin.	Gold certificates.	Total.
1897.			
January.....	\$8,848,914	\$298,200	\$7,145,114
February.....	4,155,490	29,650	4,185,140
March.....	3,788,954	77,250	3,866,204
April.....	3,972,416	32,420	4,004,836
May.....	1,943,834	22,490	1,966,324
June.....	3,032,827	46,180	3,078,957
July.....	3,673,887	51,410	3,725,297
August.....	3,680,310	189,220	3,810,530
September.....	4,796,794	111,880	4,908,124
October.....	7,368,075	77,430	7,445,505
November.....	4,335,423	94,000	4,429,423
December.....	5,569,506	99,200	5,668,706
Total.....	53,164,430	1,078,730	54,243,160

OFFICE OF TREASURER UNITED STATES, January 13, 1898.

TABLE Y.

Statement showing the amount of capital, claims proved, dividends paid, and percentage of dividends to claims and to capital, of insolvent national banks, classified according to capital stock, 1865 to October 31, 1897, inclusive.

Banks.			Claims proved.	Dividends paid.	Percentage.	
Classification.	Number.	Capital.			Dividends to claims.	Dividends to capital.
\$50,000 and less.....	112	\$5,580,000	\$7,928,060	\$4,055,504	51.16	72.68
Over \$50,000 to \$100,000, inclusive.....	112	10,329,020	17,124,255	9,727,153	56.80	94.17
Over \$100,000 to \$200,000, inclusive.....	60	10,555,600	16,671,028	10,162,167	60.96	96.27
Over \$200,000 to \$300,000, inclusive.....	33	9,001,500	18,424,467	11,696,762	63.50	120.98
Over \$300,000 to \$500,000, inclusive.....	19	8,900,000	28,821,505	18,569,813	64.43	208.65
Over \$500,000.....	14	14,111,300	32,655,246	21,603,099	66.15	153.09
Total.....	350	58,477,420	121,624,561	75,817,496	62.84	129.65

The foregoing statement includes all banks which have been placed in the charge of receivers, the affairs of many of which have not been finally closed.

TABLE Z.

TREASURY DEPARTMENT,
OFFICE OF THE SECRETARY,
Washington, D. C., January 28, 1898.

SIR: I have the honor to acknowledge the receipt of your letter of the 25th instant, as follows:

You said before the committee that it was impossible for the banks in this country to maintain gold redemption, which declaration, I need not say to you, was a very great surprise to me, especially in view of the fact that specie redemption was maintained by the banks in this country until the Government made it impossible for them to do so by its action in the early sixties.

Of course, there was suspension in 1857, etc., and wild-cat banks and dishonorable and dishonest conditions, but the banks in New England and the older States—honest banks—united in assisting each other to maintain specie payments, and are so united in other countries where individual banks are chartered and maintain gold redemption.

With a penalty tax reaching to all banks, equal to one-third per annum of the nominal capital of all banks of loans and discount if they failed to maintain gold payment, will you state to the committee why they would not devise some means of uniting their gold if permitted to do so, to maintain gold payments so as not to incur the penalty tax by allowing gold to go to a premium?

In reply to the first clause of your letter I beg to say that I did not intend to say or to be understood as saying that the banks in this country could not, under reasonable conditions, maintain gold redemption of their own obligations.

The banks of this country did it with the modifications noted in the second clause of your letter until, as you say, "The Government made it impossible for them to do so by its action in the early '60's."

The third clause of your letter asks me to state "why they (the banks) would not devise some means (if allowed to issue notes under the system proposed in your bill) of uniting their gold * * * so as not to incur the penalty tax by allowing gold to go a premium?"

It is in answer to this query that I now write. Please understand that what I say is a matter of opinion—an estimate of probabilities—on a question not capable of absolute determination until put to the test. My opinion is, very firmly felt, that the banks would not, in consideration of the privileges conferred, assume the responsibilities imposed. If the legal-tender money of the United States were gold, or if the Government, having emitted \$500,000,000 or more of silver money, the commercial value of which is less than half its face value, could be firmly relied upon to maintain its parity with gold by exchanging gold for it at times and in amounts that conditions might render needful, then in that case I think the banks would not be especially afraid of embarking under your bill; and, practically speaking, I think the risk and burden to the Government would not be onerous. I offer the objection that the banks, not having been beneficiaries of the Government's past action relating to the purchase and coinage of silver, will refuse to assume the burden and risk of its possible evil results and thus allow the Government to divest itself of such responsibility. They will have two reasons for refusing.

First. They will not wish to assume a duty they are not confident they can discharge. It may be said that the Bank of France performs an equally burdensome duty now, and that I believe is true, but the conditions are entirely different. The Bank of France, with its many branches, gives the word and absolute rule of action to each of its agents in all these branches. They loan or withhold, they pay out or retain, in amounts and proportions as they may respectively be directed to do by the parent bank. Here, on the other hand, we would have twelve, fifteen, or eighteen thousand banks, perhaps, each one intolerant to interference, separate as grains of sand, with no natural power of cohesion, each more or less independent and rebellious, and I conceive it to be impossible to devise any method by which any rule of action could be made uniform and operative through directions received from one common center of government.

The second reason for objection by the banks is the penalty clause. Under your proposition a bank may redeem every one of its own notes in gold, but if through the operation of others a parity between gold and silver coin in the financial market is not maintained, it falls under the category of remissness, and may be subjected to a penalty for not doing the impossible.

Respectfully, yours,

L. J. GAGE, *Secretary.*

HON. JOSEPH H. WALKER,
*Chairman Committee on Banking and Currency,
House of Representatives, United States.*

TEXT OF THE FOWLER BANKING BILL.

[H. R. 50. Fifty-fifth Congress, first session.]

MARCH 15, 1897.—Mr. Fowler, of New Jersey, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL to amend the national-bank act, take the United States Government out of the banking business, refund the national debt, reform the currency, insure depositors, improve and extend our banking system, and to provide funds in case of a deficit.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there shall be, and there is hereby, created and established a department of finance, which shall have entire and exclusive control and supervision of all national banks, their right to take out secured circulation and issue their notes. Department of finance.

SEC. 2. That there shall be three ministers of finance, who shall take the place of the Comptroller of the Currency and constitute a board of finance; and said board of finance shall conduct the said department of finance. That said ministers of finance shall be appointed by the President, by and with the advice and consent of the Senate, and the term of office shall be for a period of twelve years, at a salary of ten thousand dollars per annum; and said ministers shall be removed only by and with the consent of the Senate for cause stated in writing. That the term of the first three ministers shall be for twelve, eight, and four years, respectively. The minister appointed for twelve years, and his successors, shall be known as first minister of finance, and he shall preside at all meetings of the board of finance; and the remaining two ministers shall be known as associate ministers of finance. Ministers of finance.

SEC. 3. That any national bank now doing business, or any other financial institution doing a similar business, or any number of persons may, in accordance with existing law, so far as the same is consistent with this act, organize upon the following terms and conditions: Who may organize.

If any corporation or association of persons described as aforesaid shall deposit with the United States Government any of the United States bonds now outstanding, or any that may be hereafter issued, which, at their stated value as herein set forth, (a) shall be equal to the required amount of circulation in the respective cases specified, (b) the United States Government shall issue to said corporation, in lieu of said bonds so deposited, United States Government bonds bearing interest at the rate of two per centum per annum (c) equal in amount to the value thereof, both principal and interest of said new bonds being payable in gold coin, and to have the like qualities, privileges, and exemptions provided by the act approved January fourteenth, eighteen hundred and seventy-five, entitled "An act to provide for the resumption of specie payments;" and said new bonds shall thereupon be deposited with the United States Government, and circulation known as United States Government bond notes shall be issued to said corporation in an amount equal to the new bonds so deposited, said United States Government bond notes being in denominations of ten dollars or multiples thereof. How banks shall organize.

Price at which (a) That the United States Government bonds now outstanding bonds will be received shall be received at the following prices, to wit:

2s, reg.	Q, Mar.	95½
4s, 1907, reg.	Q, Jan.	109½
4s, 1907, coup.	Q, Jan.	110½
4s, 1926, reg.	Q, Feb.	120½
4s, 1926, coup.	Q, Feb.	120½
5s, 1904, reg.	Q, Feb.	113½
5s, 1904, coup.	Q, Feb.	113½
6s, cur'cy, '98, reg.	J. & J.	102½
6s, cur'cy, '98, reg.	J. & J.	105
4s (Cher.), 1897, reg.	March.	102
4s (Cher.), 1898, reg.	March.	102
4s (Cher.), 1899, reg.	March.	102

and that from and after the passage of this act said bonds shall be received upon the same income basis, respectively.

Amount of (b) All banks organized under this act shall take out for issue United States Government bond notes in proportion to their respective capital as follows: All banks having a paid-up capital of one million dollars and over shall take for issue five hundred thousand dollars of such notes; all banks having a paid-up capital of two hundred thousand dollars and less than one million dollars shall take for issue an amount of United States Government bond notes equal to one half of their respective capitals; but no one of said banks shall take for issue less than two hundred thousand dollars of said notes; all banks having less than two hundred thousand dollars of paid-up capital shall take for issue an amount of said United States Government bond notes equal to their respective capitals, and each bank shall pay into the United States Treasury one-fourth of one per centum per annum upon the notes so taken out for issue as a part of the fund to be created and known as "United States national-bank note redemption fund."

Tax to be paid.

Bonds, when due.

(c) The first one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and forty-five.

The second one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and forty.

The third one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and thirty-five.

The fourth one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and thirty.

The fifth one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and twenty-five.

The sixth one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and twenty.

The seventh one hundred million of said two per centum bonds that are issued in exchange for other United States bonds shall become due in nineteen hundred and fifteen.

The two per centum bonds that are issued in exchange for the balance of the United States bonds then outstanding shall become due in nineteen hundred and ten.

That the amount of United States Government bond notes which the banks organized under this act are required to take out for issue may be gradually reduced and retired as follows: Twenty-five per centum thereof may be retired in nineteen hundred and ten, twenty-five per centum in nineteen hundred and fifteen, twenty-five per centum in nineteen hundred and twenty, and the remaining twenty-five per centum in nineteen hundred and twenty-five.

All bondholders may exchange for new 2 per cent bonds. All other holders of United States Government bonds are hereby authorized and entitled to exchange the same at any time prior to January first, eighteen hundred and ninety-nine, for the said new two per centum United States Government bonds upon the income basis hereinbefore set forth.

Legal tender between banks. SEC 4. That said United States Government bond notes shall be a legal tender between all national banks and shall be redeemed in gold coin when presented for payment at the bank of issue.

SEC. 5. That at the same time that said corporation, if located in a reserve city, shall deposit United States Government bonds as aforesaid it shall also deposit with the United States Government United States legal-tender notes or gold certificates, or both, of such an amount that it, together with the gold said corporation has on hand, will equal fifteen per centum of its deposits; and the United States Government shall deliver to said corporation gold coin in lieu of said legal-tender notes and said gold certificates. Said corporation shall also deposit at the same time with the United States Government United States Treasury notes or United States silver certificates, at the option of said ministers, or both, which, with the silver coin then held by said corporation, shall amount to ten per centum of its deposits, and the United States Government shall deliver to said corporation in lieu thereof silver coin of an equal amount; and said legal-tender notes, gold certificates, Treasury notes, and silver certificates shall be thereupon canceled. Said corporation shall thereafter keep as a reserve twenty-five per centum of its deposits in the following kinds of money: At least sixty per centum of said reserve shall be in gold coin, and the remaining forty per centum of said reserve may be in silver coin or United States Government bond notes: *Provided, however,* That in lieu of one-half of such reserve, cash on deposit, subject to check, may be held in reserve cities.

Exchange of notes for gold and silver by banks in reserve cities.

SEC. 6. That at the same time that said corporation, if located outside a reserve city, shall deposit United States Government bonds as aforesaid, it shall also deposit with the United States Government United States legal-tender notes, or gold certificates, or both, of such an amount that it, together with the gold coin said corporation has on hand, will equal nine per centum of its deposits; and the United States Government shall deliver to said corporation gold coin in lieu of said legal-tender notes and said gold certificates. Said corporation shall also deposit at the same time with the United States Government United States Treasury notes or United States silver certificates, at the option of said ministers, or both, which, with the silver coin then held by said corporation, shall amount to six per centum of its deposits, and the United States Government shall deliver to said corporation in lieu thereof silver coin of an equal amount; and said legal-tender notes, gold certificates, Treasury notes, and silver certificates shall be thereupon canceled. Said corporation shall thereafter keep as a reserve fifteen per centum of its deposits in the following kinds of money: At least sixty per centum of said reserve shall be in gold coin, and the remaining forty per centum of said reserve may be in silver coin, or United States Government bond notes: *Provided, however,* That in lieu of one-half of such reserve, cash on deposit, subject to check, may be held in reserve cities.

Exchange of notes for gold and silver by banks outside reserve cities.

SEC. 7. That the United States Government shall not pay out or reissue any United States legal-tender notes or gold certificates from and after the first day of January, eighteen hundred and ninety-eight, but the same when received shall be canceled and destroyed; and further, that the United States Government shall not pay out, issue, or reissue any United States Treasury notes or silver certificates from and after the first day of January, eighteen hundred and ninety-nine, but the same when received shall be canceled and destroyed.

United States Government not to pay out notes or certificates after 1898-99.

SEC. 8. That any corporation organized under this act may, with the permission and under the supervision and control of the board of finance, issue its own circulation, which shall be furnished by the United States Government and be known as United States national-bank notes. Said United States national-bank notes shall be issued in denominations of ten dollars and multiples thereof, and shall be a first lien upon the assets of the bank issuing the same, and also upon the liability of the stockholders, and may be issued only in the following manner and upon the following conditions:

May issue notes against assets.

First. Every bank issuing United States national-bank notes shall at all times maintain against the amount of such notes outstanding a reserve corresponding to that required against its deposits.

Reserve of banks against notes issued against assets.

Second. Any bank that shall have complied with this law may, with the consent and under the supervision and control of the board of finance, issue an amount of United States national-bank notes equal to twenty per centum or one-fifth of its paid-up and unimpaired capital, and shall pay upon such an amount thereof as may be outstanding at any time a tax at the rate of one per centum per annum.

Notes against assets, how issued.

Third. Said bank may issue a second amount of such notes equal to twenty per centum or one-fifth of its paid-up and unimpaired capital, and shall pay upon such an amount thereof as may be outstanding at any time a tax at the rate of two per centum per annum.

Fourth. Said bank may issue a third amount of notes equal to twenty per centum or one-fifth of its paid-up and unimpaired capital, and shall pay upon such an amount thereof as may be outstanding at any time a tax at the rate of four per centum per annum.

Fifth. Said bank may issue a fourth amount of notes equal to twenty per centum of its paid-up and unimpaired capital, and shall pay upon such an amount thereof as may be outstanding at any time a tax at the rate of six per centum per annum.

Sixth. Said bank may issue a fifth amount of notes, equal to twenty per centum or one-fifth of its paid-up and unimpaired capital, and shall pay upon such an amount thereof as may be outstanding at any time a tax at the rate of eight per centum per annum.

Seventh. If the amount of United States national-bank notes issued by any bank shall exceed at any time the paid-up and unimpaired capital of said bank, a tax at the rate of ten per centum per annum shall be paid by said bank on such excess.

Suspension of
tax upon notes.

Eighth. That said ministers of finance are hereby authorized and empowered to suspend one-half of said tax upon any one or all of the said several issues of United States national-bank notes at any time after nineteen hundred and ten, and at any time after nineteen hundred and twenty said ministers of finance are further authorized and empowered to suspend any portion of the tax then remaining except the ten per centum tax referred to in paragraph seven.

Redemption
fund, how used.

SEC. 9. That all taxes so paid to the Government upon said United States Government bond notes and said United States national-bank notes shall constitute and be known as the "United States National-bank Note Redemption Fund," and be held exclusively for the redemption, first, of the United States Government bond notes; second, for the United States national-bank notes in the event of the liquidation of any bank organized under this law: *Provided, however,* That when said "Redemption Fund" shall exceed five per centum of both the United States Government bond notes and the United States national-bank notes such excess shall belong to the United States Government, and may be used by it to defray its general expenses.

Use of excess
over 5 per cent.

Clearing-house
districts, how
formed.

Banks must be-
long to some dis-
trict.

Notes must be
returned to their
district.

SEC. 10. That the board of finance shall divide the United States into clearing-house districts, and each bank organized under this act shall belong distinctively to some one district, and the number of such district shall be plainly and prominently printed upon the said United States national-bank notes issued by the banks located therein. The several banks of each district, upon receiving United States national-bank notes belonging to any other district, shall forward the same to a bank in a clearing-house city, which shall return them to the district to which they belong.

Legal tender
between banks.

SEC. 11. That the said United States national-bank notes shall be a legal tender at par between all national banks, and the same shall be redeemed, upon presentation at the bank of issue, in gold coin, or, at the option of the bank of issue, forty per centum thereof may be redeemed in United States Government bond notes.

Banks outside
must clear
through some
bank in clearing-
house city.

SEC. 12. That each bank organized under this act and doing business outside of a clearing-house city shall select some national bank in the clearing-house city of its own district through which it shall redeem its United States national-bank notes in gold coin, or at the option of said redemption bank forty per centum thereof may be redeemed in United States Government bond notes; and for said purpose shall keep on deposit with said bank a reserve of five per centum of the amount at any time outstanding, and said five per centum may be considered a part of its required reserve.

Banks with
\$20,000 author-
ized.

SEC. 13. First. That in cities with less than two thousand population banks may be organized under this act with a capital of twenty thousand dollars, or any greater amount in multiples of five thousand dollars; but no bank shall be organized in any reserve city with a less capital than one hundred thousand dollars.

Branches may
be established.

Second. That under such regulations and restrictions as shall be established by the said ministers of finance, national banks organized under this act may establish branch banks by and with the consent of said ministers, such branch banks to have the right to receive deposits,

make loans, grant discounts, and buy and sell exchange, but in no case to be permitted to issue circulating notes other than those of the parent bank. It shall in all respects be considered as a part of the parent bank, and in each case where such branches are maintained the ministers of finance shall receive in the reports of the central bank a statement, properly sworn to and attested, of the condition of its branches.

Said ministers of finance shall also have the right of separate and independent examinations, and they may, whenever they deem it necessary, require, before granting the right to any bank to maintain branches, that the paid-up capital stock of such bank be increased to an amount to be fixed by them.

SEC. 14. First. That in the event of the liquidation of any national bank organized under this act the United States Government shall redeem, upon presentation, after notice given as herein provided, any of said United States Government bond notes or said United States national-bank notes, reimbursing itself for the full amount thereof out of the assets of said bank, and distribute the remaining assets among the depositors and all others having claims in the same manner as now provided by law. United States Government shall redeem notes.

Second. That from the time of the suspension of said bank up to the date set by said ministers of finance for the redemption of said United States national-bank notes, they shall bear interest at the rate of five per centum per annum. Such notice shall be given in some newspaper printed in the clearing-house city where said notes were cleared; but nothing herein contained shall be construed to impose any liability upon the Government of the United States, or any of its representatives, beyond the amount available from time to time out of said "United States National-bank Note Redemption Fund." Notes to bear interest.

SEC. 15. First. That any bank organized under this act may at any time after nineteen hundred and five, with the consent of the ministers of finance, insure its depositors against loss by paying into the United States Treasury one per centum upon the average balance of deposits of the preceding fiscal year, and one-half of one per centum upon the average annual balances thereafter until the amount so paid into the United States Treasury by said bank shall amount to five per centum of the average balance of said bank for the last preceding year, and that said ministers of finance may then suspend said tax for the time being. If the deposits of said bank shall increase, or for any reason the amount of the insurance fund to the credit of said bank shall be less than five per centum of the deposits, said ministers may reimpose said tax of one-half of one per centum upon the deposits of said bank; and if said bank shall fail to pay such tax at any time after the payment of said one per centum the amount already paid by said bank shall be forfeited to the United States Government and the insurance of said depositors shall thereupon cease. Banks may insure depositors.

Second. That the amounts of money so received shall constitute and be known as the "Depositors' Insurance Fund," and each bank shall be entitled to receive interest upon the amount standing to its credit in said "Depositors' Insurance Fund," at the rate of two per centum per annum, and the same shall be adjusted annually on the thirtieth day of June. Depositors' insurance fund.

Third. That in the event of the suspension of payment by any bank so insured of any of its liabilities as they accrue, the United States Government shall, within sixty days thereafter, no reorganization then pending, pay the depositors of such bank in full all their just claims if no question has been raised thereto; but nothing herein contained shall be construed to impose any liability on the Government of the United States, or any of its representatives, beyond the amount available from time to time out of said "Depositors' Insurance Fund." United States Government shall pay depositors in sixty days.

Fourth. That the United States Government shall thereupon reimburse itself out of the assets of said bank for any and all such moneys paid out on account of said deposits, less the amount standing to the credit of said bank in said "Depositors' Insurance Fund," and the remaining assets shall be distributed among the creditors in the same manner as now provided by law. United States Government may reimburse itself.

SEC. 16. That all moneys received by the United States Government on account of the tax upon United States Government bond notes and United States national-bank notes, or on account of the taxes paid to insure depositors against loss, may be invested in the following classes Guarantee funds, how to be invested.

- of securities, and no others: First, United States Government bonds or United States certificates of indebtedness; second, the bonds of any State which has not defaulted in the payment of either principal or interest of any of its indebtedness for twenty years just preceding such investment; third, the bonds of any city in the United States having a population of more than one hundred thousand, and which has not defaulted in the payment of either principal or interest of any of its indebtedness for twenty years just preceding such investment.
- Means ministers have of carrying the act into effect.** SEC. 17. That for the purpose of carrying this act into effect and enabling the banks organized hereunder to maintain their required reserves, and for the purpose of equalizing and adjusting the relative use of gold and silver in the United States, the ministers of finance are hereby authorized and empowered to sell and dispose of any of said new two per centum bonds at par for gold coin, or to exchange the same for any of the legal-tender money of the United States at par; the bonds so sold or exchanged to be issued in denominations of twenty-five dollars, or multiples thereof, at the option of the buyer, and to become due and payable in nineteen hundred and fifty; and the said ministers, for the same purpose (with the concurrence of the Secretary of the Treasury), are also authorized and empowered to exchange from time to time gold bullion or gold coin for silver bullion or silver coin, and silver bullion or silver coin for gold bullion or gold coin.
- Loans to officers and employees.** SEC. 18. That the loans and discounts of any bank organized under this Act granted to its executive officers or employees shall in no case, directly or indirectly, exceed ten per centum of the capital, and the same shall be secured by proper collateral, or by an additional signature or signatures of financially responsible persons to the notes taken, and that the same be made only upon the written approval of a majority of the board of directors and a separate record thereof kept.
- Loans to directors must be secured or authorized by board.** SEC. 19. That no loan shall be made to a director not an executive officer of the bank except either upon a deposit of good and sufficient collateral security, or upon a note given therefor bearing, in addition to such director's own name, the signature or signatures of one or more financially responsible persons, or unless a resolution has been passed by the board of directors and signed upon the record by at least a two-thirds majority thereof giving to such director a line of credit covering any advances to be made to him.
- Penalty for breaking law by officers.** SEC. 20. That any president, vice-president, cashier, assistant cashier, or employee of any bank organized under this Act who shall be convicted of unlawfully borrowing or using any of the funds of the bank with which they are connected shall be imprisoned for ten years, and any officer of any such national bank at the time of its failure shall be ineligible to any official position in any national bank thereafter.
- Not to engage in speculation.** SEC. 21. That it shall be unlawful for any national bank to engage in the promotion of any enterprise, or to loan the funds of the bank upon the bonds or securities of incomplete, and partially developed projects of any kind, such as partially constructed railroads, street-car lines, electric-light, gas, water, mining, manufacturing, or irrigation plants.
- Directors must examine.** SEC. 22. That upon a day in each year to be designated by said ministers of finance, the directors of the national banks shall be, and are hereby, required to make an examination of the affairs of the bank with which they are connected and submit their report thereon upon blanks furnished by said ministers, and said report shall be signed by at least three-fourths of said directors.
- Assistant cashier may sign notes.** SEC. 23. That the assistant cashier, in the absence of the cashier, or on account of his inability, shall be, and he is hereby, authorized to sign the circulating notes of the bank, and sign and make oath or affirmation to the reports called for by said ministers of finance showing the condition of the bank with which he is connected, and such oath or affirmation and all others required of bank officers may be administered by any notary public or commissioner of deeds.
- Oaths may be taken, how.** SEC. 24. That the clearing houses of the respective districts shall act under charters granted by the United States Government, running for fifty years and authorizing them to effect clearances between banks and to do other business for and between banks, in accordance with such rules and regulations as may be prescribed by said ministers of finance from time to time.
- Clearing-house charters may be granted by Government.**

SEC. 25. That to provide for any temporary deficiency now existing in the Treasury of the United States, or which may hereafter occur, the Secretary of the Treasury is hereby authorized, at his discretion, to issue certificates of indebtedness of the United States, payable in from one to five years after their date, to the bearer, in gold coin, of the denomination of twenty-five dollars, or multiples thereof, with annual coupons for interest at a rate not to exceed three per centum per annum, and to sell and dispose of the same for not less than an equal amount of gold coin at the Treasury Department and at the subtreasuries and designated depositories of the United States and at such post-offices as he may select. And such certificates shall have the like qualities, privileges, and exemptions provided in the resumption act (approved January fourteenth, eighteen hundred and seventy-five, entitled, "An act to provide for the resumption of specie payments") for the bonds therein authorized. And the proceeds thereof shall be used for the purpose prescribed in this section and for no other.

Deficiency in revenues may be provided for by sale of bonds.

SEC. 26 That all acts or parts of acts inconsistent with the foregoing shall be, and the same are hereby, repealed.

TEXT OF THE WALKER BANKING BILL.

[H. R. 3333, Fifty-fifth Congress, second session.]

MAY 24, 1897.—Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

JANUARY 11, 1898.—Reported to the House and ordered to be printed, and recommended to the Committee on Banking and Currency.

Banks to or—A BILL to so change the national-bank act as to secure to the people in all sections
ganize under ex- of the country an equal opportunity to freely use paper money.
isting law except
as modified.

No United States bonds re- *Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter banking associations shall not be required, "preliminary to the commencing of the banking business," or in continuance thereof, to "transfer and deliver to the Treasurer of the United States," or as security for circulating notes, any United States bonds; and any national banking association that has transferred and delivered such bonds to the Treasurer, upon depositing lawful money, in compliance with section two of this act, may recover such bonds from the Treasurer upon complying with the conditions prescribed for the reassignment of such bonds to associations in liquidation; and the Treasurer of the United States is hereby authorized and directed to reassign and deliver such bonds to the association from which he received them upon being notified by the Comptroller of the Currency that such association is in compliance with section two of this act; and in place of United States bonds, as heretofore required, banking associations shall deposit lawful money in amount sufficient to take out the United States legal-tender circulating notes described in section two; and the taking out of such notes is hereby required of such associations preliminary to the commencing of the banking business.*

Banks in places of less than 4,000 inhabitants. *In places of less than four thousand inhabitants, with the permission of the Comptroller of the Currency, banking associations may be organized with a paid-up capital of not less than twenty thousand dollars.*

Capital is capital, surplus, and undivided profits. *The word capital as used in this act shall be held to mean the sum of the nominal capital plus the surplus and undivided profits of associations, and as shown by the last published annual report of the Comptroller of the Currency when such items concerning the bank in question are published in such report.*

To receive United States legal-tender notes combined with bank notes. *SEC. 2. That upon the delivery of coin, coin certificates, or United States legal-tender notes, including Treasury notes, to the Treasurer of the United States in sums of one hundred dollars or any multiple thereof, and in amount equal as near as may be to twelve and one-half per centum of its capital, thereupon it shall be entitled to receive from the Comptroller of the Currency United States legal-tender notes of different denominations, having printed on their reverse side the circulating note of the association, in blank, registered and countersigned as provided by law, equal in amount to the coin, coin certificates, and United States legal-tender notes, including Treasury notes, delivered; and any association may at any time increase such delivery of such moneys to an amount equal to one-half of its capital, and receive such circulating notes thereon to the amount of such delivery of such money.*

The promise of the association receiving and issuing such notes to pay the same on demand shall be attested by the signature of the president or vice-president and cashier or assistant cashier before being issued by it.

The Secretary of the Treasury is hereby authorized to issue United States legal-tender notes of the act of March third, eighteen hundred and sixty-three, to the amount necessary to carry into effect the provisions of this act.

The lawful name and description of the notes issued under this section shall be greenbacks.

SEC. 3. That the Comptroller of the Currency shall issue, in blank, circulating notes of different denominations, to any association, and the association may issue the same in addition to the greenbacks described in the preceding section equal in amount to the amount of the greenbacks taken out by it until the setting aside of the gold in the Treasury of the United States to redeem certain legal-tender notes as described in the section next succeeding. Thereafter he shall issue to any association, and the association may retain and issue, the notes described in this section at his discretion, but not less in amount than the amount of the greenbacks taken out by such association, and not to exceed in amount the amount of its unimpaired capital. Each association taking out the notes described in this section shall add to its current redemption fund and keep therein a sum in lawful money equal in amount to five per centum of such notes it averages to keep in circulation as found from time to time; such five per centum, together with the five per centum mentioned in the next section, shall be held for the redemption of its greenbacks and notes issued to it under this section.

That the lawful name and description of notes issued under this section shall be currency.¹ All currency shall have printed on its reverse side the statement that it is to be finally redeemed and paid by the Treasurer of the United States. The Comptroller of the Currency may cause a supply of currency and of greenbacks to be printed for associations in anticipation of immediate delivery to them.

SEC. 4. That the Treasurer of the United States shall forthwith redeem and destroy existing United States legal-tender notes issued under acts passed before July first, eighteen hundred and ninety, and put in circulation previous to the passage of this act, in such manner as he may deem proper, equal in amount to ninety-five per centum of the aggregate of the coin, coin certificates, and United States legal-tender notes, including Treasury notes received for greenbacks issued to banking associations; and the Treasurer shall set aside five per centum of such aggregate, which, together with the five per centum mentioned in the previous section, shall be held for the current redemption of the greenbacks and currency of the association making such deposit.

When there shall be no more in amount of United States legal-tender notes outstanding issued before July first, eighteen hundred and ninety, than the amount of the gold then held by the Treasurer for the redemption of such notes, the gold so held shall then be set aside by the Treasurer of the United States and used only to redeem of such notes, which notes upon being so redeemed shall be destroyed;² notes.

Volume of legal-tender notes allowed.

Greenbacks, lawful name.

May issue circulating notes against assets, etc.

Five per cent redemption fund on currency.

Lawful name, currency.

How currency to be finally paid. May print notes in anticipation of use.

Ninety-five per cent old issue of legal tender to be destroyed as new legal tender is issued.

Five per cent lawful money paid in kept for current redemption fund.

Gold in Treasury set aside to redeem old issues of legal-tender notes.

¹ Net assets of national and State banks, in capital, surplus, and undivided profits..... \$1,350,000,000
All kinds of paper money in circulation 1,095,377,992

Profits to bank on currency under existing law and conditions, about one-fourth of 1 per cent.

As all taxes except one-fifth of 1 per cent, safety-fund tax, are removed, the average profit, taking the country over, under this bill, on the currency kept on, would be about 6 per cent. Nothing is gained on the greenbacks and 6 per cent on the reserve notes.

The currency issued is not "reserve certificates." It is in no sense "issued against the reserve held." They hold exactly the same relation to the "reserve held" as any other liability of the banks. For each \$95 of old issue of greenbacks that are redeemed and destroyed, \$100 of new greenbacks are issued and \$100 of reserve notes, making \$200 of currency for each \$95 retired.

² Outstanding United States legal-tender notes..... \$346,000,000
Gold redemption fund in Treasury in February, 1896..... 146,000,000

Total legal-tender notes to be assumed by banks..... 200,000,000
to relieve the situation. Thus, when the banks have assumed the current redemption

Certain legal-tender notes can not be counted in reserve fund. and from and after thirty days from the setting aside of gold herein mentioned, such notes shall not be used by any banking association in redeeming its notes, or be counted in the reserve fund of any

Old United States legal-tender notes no longer money. national-banking association, or be a legal tender for any debt due and payable in the United States excepting for duties due and payable on goods imported into the United States.¹

Amount of legal-tender notes limited. That upon the setting aside of the gold herein directed, a sum of money equal in amount to all moneys subsequently paid into the Treasury of the United States in exchange for greenbacks shall be held in the Treasury as a separate fund, out of which the Treasurer shall, from time to time, redeem greenbacks held by certain associations in amount and manner as follows, to wit:

Reduction of legal-tender notes banks are required to take. When such funds shall amount to one per centum of the total amount of greenbacks taken out under this act by associations before the setting aside of gold and then held by them, or oftener, he shall call in, redeem, and cancel such greenbacks so held that are in excess of the total amount of such notes issued to banking associations and held by them, previous to the setting aside of gold, and in amounts of one hundred dollars or any multiple thereof. He shall first reduce the

Reducing amount of legal-tender notes in excess. amount of such greenbacks to those associations which hold the largest amount of greenbacks in proportion to their capital, if requested by them so to do, and until the holdings of such greenbacks by all associations have been reduced to the sum required to be taken out by them; and he may require any association to increase its holdings of greenbacks in sums of one hundred dollars or any multiple thereof when the increase of its capital makes its holdings of greenbacks less in percentage than is required by this act. Thereafter the taking out and the holdings of greenbacks by any association shall be reduced so as to keep the total amount of greenbacks held by the aggregate of all associations as near as may be at the aggregate amount of greenbacks so held by all associations at the time of the setting aside of gold herein mentioned.

Balance of gold, free money in two years. Two years from the day of the setting aside of the gold in the Treasury to redeem certain legal-tender notes any gold so set aside then remaining shall be free money in the Treasury.

May retire currency on certain conditions. SEC. 5. That any association, upon giving notice of its intention so to do to the Comptroller of the Currency, may surrender any part of its greenbacks in excess of the amount it is required to keep, and receive lawful money therefor.

Treasurer of the United States shall pay the bank for notes bought of the United States Government. Upon the expiration of the corporate term of any association, if its corporate existence is not extended by the Comptroller of the Currency, or upon the insolvency of an association, or by the order or with the consent of the Comptroller, approved by the Secretary of the Treasury, the Treasurer shall redeem the greenbacks issued to the association, out of any moneys in the Treasury not otherwise appropriated.

May reduce currency. Any association may reduce its currency by surrendering it for destruction to the Comptroller of the Currency, who shall destroy the currency so surrendered in the manner prescribed by law. The liability of any association for its currency shall neither be canceled nor reduced in any other manner.

Five per cent redemption fund to be kept by Treasurer. SEC. 6. That the Treasurer of the United States shall at all times keep and have on deposit in the Treasury of the United States, in coin, for the current redemption fund of each association during its solvency, a sum equal to the five per centum before mentioned of the

of only \$200,000,000 of legal-tender notes, the Treasury will be wholly relieved from paying gold on any form of paper money, and it will be a matter of as much indifference what the Government pays out as in the case of any private citizen.

Visible gold on July 1, 1895, as reported by the Director of the Mint:

In United States Treasury.....	\$156,591,864
In national banks.....	148,791,837
In State banks.....	10,404,338

Total commercial gold.....	315,788,039
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¹This provision is designed to bring legal-tender notes into the Treasury for redemption.

greenbacks and average outstanding currency of the association, to be held and used for the current redemption of its greenbacks and currency; and no part of such redemption fund shall be counted as a part of the reserve of any bank; and when the notes of any association, assorted or unassorted, shall be presented for such redemption to the Treasurer of the United States, in sums of five hundred dollars, or any multiple thereof, or in sums equaling not less than one per centum of the total circulation of any association having less than fifty thousand dollars in greenbacks and currency, the same shall be redeemed.

Each association shall redeem in lawful money its greenbacks and currency at its own banking house and at an agency approved by the Comptroller in some reserve city.

The right to confer the duties and responsibilities of executing the provisions of this act, or any part thereof, relating to the current redemption fund or the redemption of greenbacks and currency upon any reserve bank or other suitable agent, under such regulations as he may deem safe and proper, and to deposit any part of the current redemption fund or funds in any place he may deem proper, with the approval of the Secretary of the Treasury, is hereby conferred upon the Treasurer of the United States.

SEC. 7. That from and after thirty days from the setting aside of gold by the Treasurer of the United States to redeem and cancel certain legal-tender notes as aforesaid the cash reserve required by law to be kept by each association shall be kept as near as may be in equal part in greenbacks of other associations in silver coin and in gold coin of the United States.

Each banking association may keep its coin and its bonds in such gold coin, greenbacks, and currency as to keep each one and all four kinds of money at a parity each with all the others from and after the setting aside of gold herein mentioned shall be deemed to have failed to pay in coin or in United States legal-tender notes issued to other associations on demand its greenbacks and currency.

No association shall plead in defense, in any action brought against it, that any greenback or currency note signed by its officers and paid out by it is a United States legal-tender note.

SEC. 8. That hereafter no certificates shall be issued or reissued by the Treasury of the United States upon the deposit of gold coin, silver coin, or any other money, and that all existing coin certificates and money certificates shall be canceled and destroyed upon being received into the Treasury, and the coin or money remaining upon which they were issued shall be free coin or money in the Treasury; and no circulating note authorized under existing law shall be issued or reissued to any banking association of a less denomination than three dollars, and all such notes of less denomination than three dollars hereafter received for redemption shall be canceled when received in the Treasury, and like notes in blank of a larger denomination shall be returned in place of them; and no United States legal-tender notes, including Treasury notes, of a less denomination than three dollars shall be hereafter issued or reissued, but those of a larger denomination shall be issued or reissued in place of them.

SEC. 9. That there is hereby constituted and appointed a board of advisers to the Comptroller of the Currency, consisting of seven experts, to consult and advise with the Comptroller upon methods of executing existing law concerning banking, and changes desirable therein, over which board the Comptroller of the Currency shall preside.

The president of the chief redemption bank in San Francisco, New Orleans, and each of the other five chief redemption cities in the country, or such substitute as any one of them shall from time to time

Redemption agents may be appointed and redemption fund deposited with them.

Security approved by Secretary of Treasury to be taken.

Reserve, how kept.

May keep coin and bonds in any place Comptroller permits. When coin payments are suspended.

Legal-tender note is only a bank note to the bank issuing it. Gold and silver certificates to be redeemed and canceled.

No circulating notes to be issued under \$3 and existing notes canceled.

No legal-tender or Treasury notes to be reissued under \$3.

Expert advisers provided for.

Substitutes for advisers, how appointed.

¹Treasury report, October, 1895:

\$1 notes in circulation.....	\$44, 861, 938
\$2 notes in circulation.....	29, 806, 988

Total outstanding notes under \$5.....	74, 668, 926
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Meetings of appoint, shall be a member of the board of advisers, which board shall meet once a year, or oftener if the Comptroller of the Currency or a majority of the board so determines, and at such time and place as the Comptroller shall appoint.

Recommendations to be recorded. The recommendations of the board of advisers, or a synopsis thereof, shall be entered in the records of the board, and the decision of the Secretary of the Treasury from time to time as to what person or persons are entitled to act as members of the board of advisers shall be final.

Who constitute advisers decided by Secretary of Treasury. Any association aggrieved by any action taken in its case by the Comptroller of the Currency may appeal to the board of expert advisers, and the decision of such board in such case, when approved by the Secretary of the Treasury, shall be final.

Appeals from Comptroller to board of advisers allowed. SEC. 10. That any five or more national banking associations are hereby authorized to unite in forming a clearing-house association. By adopting a constitution and by-laws not inconsistent with the provisions of this act the banking associations uniting to do so and certifying to the Comptroller of the Currency that fact shall in that act become a clearing-house association body corporate, upon such constitution and by-laws being approved in writing by the Comptroller of the Currency.

Any bank may join clearing house. Any incorporated banking association may be admitted to membership in any clearing-house association incorporated under this act; and the membership of any banking association of such clearing-house association may be terminated by any action of the clearing-house association approved by the Comptroller of the Currency.

Banks may withdraw from clearing house, and clearing-house association may withdraw from the national clearing house. Any banking association may withdraw from any clearing-house association and any clearing-house association may withdraw from the national clearing-house association upon such conditions as the Comptroller of the Currency may approve.

Expenses and income, how apportioned. Each member of such clearing-house association shall share in its fees and other income, and in its assessments, expenses, and losses in the proportion that the amount of its capital bears to the total amount of all the capital of all the associations composing the clearing-house association and as shown by the annual report of the Comptroller of the Currency last made previous to the apportionment of the same, when the items of its capital are given in such report.

May loan to and borrow money from banks. Each clearing-house association may make sales or loans to or buy or borrow from other clearing-house associations, and banking associations may make sales or loans to or buy or borrow from clearing-house associations. In all such buying, selling, loaning, and borrowing clearing-house and banking associations shall be exempt from the usury laws of the States in which they are located.

May redeem currency notes. Any clearing-house association organized under this act may establish a department for the clearing of the greenbacks and currency of banking associations in the current redemption thereof.

Changes in constitution and by-laws to be approved by Comptroller. Any changes in the constitution or by-laws of any clearing-house association, to become valid, must be consistent with this act and must be approved in writing by the Comptroller of the Currency, and the Comptroller may annul any part of the same at any time after a hearing thereon, with the concurrence of a majority of the board of advisers.

Clearinghouses may form national clearing houses. Five or more clearing-house associations organized under this act may form a national clearing-house association and any clearing house organized under this act may be admitted to and remain a member of the national clearing-house association upon the same terms and conditions as those governing in the case of associations constituting clearing-house associations composed of banking associations: *Provided, however,* That national clearing-house associations may make sales or loans to and may buy or borrow from clearing-house associations and may buy or sell such bonds as are necessary or desirable to the conduct of its legitimate business to any amount and of any kind approved of by the Comptroller of the Currency, and may provide for the coin redemption of currency notes of banking associations, and may take and issue, under the provisions of this act, the greenbacks described in this act, but in denominations of not less than one thousand dollars.¹

¹ The financial and banking system of the United States, as of every other nation, must be built from the top down, having a great national bank with myriads of

Any clearing-house association organized under this act may be designated by the Secretary of the Treasury as a depository of public moneys, and may also be employed as a financial agent of the Government.

Clearinghouses may become depositories of public money and fiscal agents of the Government.

Any clearing-house or banking association organized under this act may, with the approval of the Secretary of the Treasury, deliver to the Treasurer of the United States, or to any assistant treasurer of the United States, for safe-keeping, any kind of money or bonds, and receive such a statement of the fact of their being in the Treasury of the United States as the Secretary of the Treasury may approve.

Treasurer of the United States may keep money and bonds for clearing houses.

Clearing house associations shall be subject to like examination by national-bank examiners as national-banking associations, and shall make such reports to the Comptroller of the Currency as he may request.

Examination of clearing-house associations.

SEC. 11. That the Comptroller of the Currency may issue to the National Clearing-House Association or other clearing-house association organized under this act, or to any national-banking association, greenbacks to any amount approved of in writing by the Secretary of the Treasury, in addition to the amount of greenbacks hereinbefore authorized: *Provided*, That the association applying for such additional greenbacks shall deliver to the Treasurer of the United States or to any assistant treasurer bonds¹ in kind and amount acceptable to the Secretary of the Treasury, as security for such greenbacks, and shall pay interest on the amount of such greenbacks so issued at the rate of six per cent per annum, such interest on such greenbacks to be paid at such time and in such manner as the Comptroller of the Currency may determine; but no more in amount than ninety per cent of the par value of any bond shall be issued in such greenbacks, and no bonds other than bonds of the United States shall be accepted by the Secretary of the Treasury as security when there are three hundred millions or more of United States bonds outstanding.

Emergency issue of legal-tender notes.

To be secured by bonds.

Rate of interest to be paid on emergency notes.

Ninety per cent of face value of bonds.

How bonds may be recovered.

Any association depositing bonds and receiving greenbacks secured thereby may withdraw such bonds so deposited, after thirty days from the date of such deposit, upon paying the accumulated interest on the amount of greenbacks issued upon the deposits of such bonds and up to the date of their withdrawal, and in addition to such interest shall deposit with the Treasurer greenbacks or other lawful money to an amount equal to the greenbacks issued to the association as security for which the bonds were deposited; but no more than five per centum of the greenbacks issued to any association other than the one receiving such greenbacks shall be accepted as a deposit for the withdrawal of such bonds.

Only 5 per cent of the notes of any one bank to be paid in to redeem bonds.

The money so deposited for the withdrawal of such bonds shall be immediately put in redemption, and the money received for it shall be kept as a special fund with which to redeem the amount of greenbacks issued to the association; and such greenbacks shall be redeemed, and when redeemed shall be destroyed to an amount equal to the greenbacks issued to the association for the security of which the bonds hereinbefore mentioned were deposited.

Notes to be put in redemption when paid in.

branches, as are those of Europe, like European governments, or it must be built from the bottom up. The independent individual bank, while retaining its independence, will unite with all other banks to form a democratic but strong and symmetrical system, as our institutions are built up from the individual. There is no escape from it. This section accomplishes that purpose. It makes a solid union of all the banks in the country into practically one bank, with all the advantages of a United States national bank, with 8,000 branches, now State and national, leaving each bank as free as now and with none of the disadvantages of a United States national bank. The union is voluntary, and in no sense compulsory. It also gives to every country bank all the assistance and support it could receive were it a branch of a United States national bank.

¹ United States bonds in national banks to secure circulation.....	\$227, 484, 000
Other United States bonds in national banks	\$17, 576, 950
Other bonds held by national banks (estimated).....	125, 000, 000

Total bonds held in 1895	142, 576, 950
The total securities, aside from United States bonds, held by national banks, most of which are bonds	148, 569, 950

Publication to be made of what bonds are accepted as security. The Secretary of the Treasury shall publish once in seven days, or oftener, in the "Statement of the condition of the United States Treasury and the receipts and expenditures," a list of the securities and the amount of each kind accepted by him to secure greenbacks issued or proposed to be issued upon the deposit of bonds, or of bonds to secure any deposits of money made in any association.

SEC. 12. That in order to enable the Secretary of the Treasury to carry into effect the provisions of the act of January fourteenth, eighteen hundred and seventy-five, entitled "An act to provide for the resumption of specie payments," and of this act, the Secretary of the Treasury is hereby authorized to issue and sell from time to time, for the period of four years, bonds as described in the act of July fourteenth, eighteen hundred and seventy, entitled "An act to authorize the refunding of the national debt;" such bonds to be payable at the pleasure of the United States after one year from the date of their issue and upon the expiration of three years, or bonds payable after three years and upon the expiration of seven years, or bonds due on a certain day within three years from the date of such bonds, as the Secretary of the Treasury may elect, such bonds to bear interest at a rate not exceeding three per centum per annum.

SEC. 13. That when the amount of the daily total reserve held by any national banking association averages to be less for any month than the amount required, it shall pay into the Treasury of the United States a duty at the rate of six per centum per annum on the amount of the average deficiency for that month in such reserve.

Whenever any association fails to pay on demand, in silver or gold coin or in United States legal-tender notes issued to other associations, the greenbacks and currency signed by its officers and paid out by it, it shall be subject to and shall pay an additional duty, at the rate of one-tenth of one per centum per annum, on a sum equal to the average amount of the individual deposits in such association during such failure and until such payment is resumed. [And whenever it shall appear to the satisfaction of the Comptroller of the Currency that any one of the four kinds of money, namely, currency, greenbacks, silver coin, or gold coin of the United States is at a premium in any one of the central reserve cities in any other one or more of the other kinds of money herein named, it shall thereupon become his duty to declare and publish the same in the "Statement of the condition of the United States Treasury and its receipts and expenditures," and such publication shall be held to be conclusive evidence that all the associations of deposit, loan, and discount as herein described in the United States have failed to pay on demand in silver or gold coin of the United States its greenbacks and currency, and the duty herein imposed for such failure shall be due and payable from each of such associations from and after the day the notice of such failure is published by the Comptroller of the Currency in the "Statement of the condition of the United States Treasury and its receipts and expenditures," and so long as such failure continues, and until the day the Comptroller of the Currency gives notice in like manner, that such failure no longer continues.]

In addition to all other taxes or duties imposed in this Act, each association organized under it shall pay into the Treasury of the United States a tax in each year, as the Secretary of the Treasury shall from time to time prescribe, equivalent to not less than one-fifth nor more than one-half of one per centum per annum¹ on the average amount of currency issued to it and in circulation and for the purpose of covering any loss which the Treasury may otherwise sustain by reason of the insolvency of any association to which currency was

One-fifth to one-half of 1 per cent safety fund tax.

¹Four-fifths of the present paper-money circulation would be \$800,000,000; one-half of 1 per cent per annum on the currency would yield \$4,000,000 per annum. The losses on the circulation to the United States Treasury on notes of insolvent banks, as shown by thirty years' experience under the existing banking laws, were not \$3,000,000 during the whole thirty-three years of the existence of the national banking system, had the national banks issued their notes under the provisions of this bill. The Government estimate for the bills lost and worn-out past redemption, and to the advantage of the United States Treasury, is two-fifths of 1 per cent per annum on all circulation. Excluding the \$1 and \$2 bills, the loss might not be more than one-half, and the gain to the United States at one-fifth of 1 per cent on the \$800,000,000 would be \$1,600,000.

For the last five years the 1 per cent tax now collected on circulation has averaged

issued under this Act: *Provided, however,* That such a tax shall not be levied to exceed one-fifth of one per centum per annum at a time when the total amount of all moneys paid into the Treasury under the tax imposed in this clause exceeds by four million dollars the total net amount paid out of the Treasury in redemption of the currency of insolvent associations in cases where the assets of such associations were not sufficient to pay such notes or sufficient to recon the Treasurer of the United States for the payment by him of such notes.

Only one-fifth of 1 per cent tax when \$2,000,000 is in Treasury.

A duty equal in amount to one-fifth of one per centum per annum is hereby imposed on the average amount of the individual deposits subject to payment by check or draft or like instrument, whether payable on demand or at some future time, that are in each incorporated banking association, trust company, insurance company, loan association, or other corporation doing a deposit and loan and discount business, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security, when any part of the obligations bought or received or sold or issued by it are used in whole or in part in commerce among the several States: (1) *Provided,* That in case any association pays one-half the tax herein imposed on or before the day it is due and payable, the other half shall be and is hereby remitted: (2) *And provided further,* That any association is hereby authorized to deposit in the Treasury of the United States an amount of lawful money equal to not less than twelve and one-half per centum of the amount of its capital, and to receive legal-tender notes of the United States to the amount of such deposit. Such notes issued to it shall have a circulating note of such association printed on the reverse side, which note, when the note of the association printed on the reverse side is signed by the proper officers of the association, shall be known as a greenback, and may be paid out by it, but under the same liabilities, obligations, and restrictions as to redeeming such greenbacks in silver or gold coin or United States legal-tender notes, and of keeping such greenbacks at a par with the silver coin and the gold coin of the United States, as are imposed upon national banking associations when like notes are issued to national banking associations:

Conditional tax on deposits in all deposit and discount banks.

Half of tax remitted, etc.

May secure legal-tender note circulation.

Provided, however, That the securing such notes by any association other than national banking associations shall confer upon it no authority to issue any other circulating notes. In case any association takes out circulating notes, as provided in this section and named greenbacks in this act, the tax imposed on such association in this section shall be wholly remitted; but in case such notes are taken out and such tax is remitted such association shall keep such record and make such reports to the Comptroller of the Currency and submit to such examinations by national-bank examiners as are now or may hereafter be required of national banking associations.

Tax wholly remitted in a certain case.

Each deposit of money or funds made by any individual or by any association in any other association however organized doing the banking business defined in this section upon which the association receiving such deposit pays or agrees to pay any money or interest shall not be subject to withdrawal excepting on a day named in a notice given in writing to such association, and not less than thirty

Interest paid on deposits makes deposits time deposits.

\$1,582,443. The banks are now in effect carrying without interest every dollar of the \$1,000,000,000 paper money in circulation. The saving in interest to the people under this bill is estimated at from \$36,000,000 to \$50,000,000 per annum, ultimately making that much saving per annum in lower rates of interest on the loans made to the people. Besides these items, J. S. McCoy, Government actuary, estimates the loss to the people in interest on the gold carried in the United States Treasury from 1879 to 1895 at \$144,241,556. It will be more, rather than less, in the next twenty-five years under the present system.

1 Cash reserve required in 1897	\$287, 742, 000
Cash reserve held in 1897	388, 883, 000
Including State bank, the cash reserve held could not be less than ..	563, 000, 000

Holding the cash reserve one-third in silver would equal \$186,000,000, and one-third in gold would equal \$186,000,000, one-third in greenbacks, \$180,000,000; total, \$563,000,000; so that the substitution of silver dollars for the \$1 and \$2 notes, added to the \$186,000,000 of silver dollars held in banks in the reserve fund, would increase the actual coin silver dollar in constant use by \$260,669,000.

days before such withdrawal: *Provided*, That this section shall not apply to moneys or funds deposited and withdrawn within seven days, or to moneys or funds that banking associations are allowed to keep in other associations as a part of their reserve.

To take effect in four months. This section of this act shall take effect on the first day of the first calendar quarter next succeeding the four months next succeeding the day of the approval of this act.

When duties and taxes are to be paid. SEC. 14. That all taxes and duties imposed by this act shall be due and payable semiannually on the first day of April and the first day of October in each year. Any clearing-house association, when requested so to do by any banking association, and with the approval of the Comptroller of the Currency, may assume and may pay any duty or tax imposed on such association by this act.

All money received to be a miscellaneous receipt. All moneys received under this act unless otherwise provided shall be covered into the Treasury as a miscellaneous receipt. The Treasurer shall keep an account of all moneys paid into the Treasury or paid out by him under each of the several sections of this act and include a statement of the same in his annual report.

Comptroller may close up banks in certain cases. SEC. 15. That upon the insolvency of any association, or whenever, in the opinion of the Comptroller of the Currency, the complete redemption and retirement of the currency issued to and retained by any national banking association is then necessary for the protection of the United States Treasury or of the holders of such currency, the Comptroller may take possession of all the assets of such association, which assets shall be held to include the liability to assessment of all stockholders, and appoint a receiver, who is hereby authorized, under the direction and control of the Comptroller of the Currency, to create and deliver to the Treasurer of the United States a fund equal in amount to such currency; and the receiver, under the direction of the Comptroller of the Currency, is hereby authorized to sell the whole or any part of the property of such association, or to pledge the whole or any part of its property or assets, at any time, as security for any loan he may elect to make in order to create such fund; and the receiver, after the completion of such fund, or as much thereof as can be realized from the assets, and not before, shall administer the remaining assets, if there be any, for the benefit of creditors and shareholders of the association; and no assessment of shareholders of an insolvent association shall be made in case the other assets are sufficient to create the fund equal in amount to the amount of the currency of the insolvent association that is to be redeemed and canceled, in which case the full assessment shall be made; but any portion of such assessment over and above the amount necessary to make up such fund may be remitted by the receiver, and any moneys collected under such assessment over and above the amount necessary to make up such fund shall be returned by the receiver to those paying such assessment in such proportion and in such manner as to make such payments of assessments as nearly equitable as may be.

Comptroller may take possession of assets. The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenback of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

Comptroller to create a fund by the receiver. The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

Comptroller may sell or mortgage assets. SEC. 16. That the Comptroller may at all times know the condition of each national banking association, each association shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its currency paid out and in circulation, and the amount of currency received from redemption agents, and its total individual deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency, and other matter requested by the Comptroller, shall be made up in duplicate for each month, and two copies or reports thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month.

Comptroller to return to bank remainder of assets. The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenback of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

Assessment of shareholders limited. The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

Remission of assessment. SEC. 16. That the Comptroller may at all times know the condition of each national banking association, each association shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its currency paid out and in circulation, and the amount of currency received from redemption agents, and its total individual deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency, and other matter requested by the Comptroller, shall be made up in duplicate for each month, and two copies or reports thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month.

Refunding of assessment. The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenback of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

Five per cent redemption fund dissolved or paid back. The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

Treasurer of United States to redeem reserve notes and greenbacks. SEC. 16. That the Comptroller may at all times know the condition of each national banking association, each association shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its currency paid out and in circulation, and the amount of currency received from redemption agents, and its total individual deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency, and other matter requested by the Comptroller, shall be made up in duplicate for each month, and two copies or reports thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month.

Daily condition of bank to be recorded. The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenback of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

Comptroller may request additional report. The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

Before making the record for the day, as required by the Comptroller, every transaction of that day pertaining thereto shall be duly entered in the books of the association. Records to be made up in bank every morning.

The records and reports herein provided for, and any other facts and data he may request of the associations or any director or officer thereof, shall be in such form as the Comptroller may direct. Comptroller to direct form of records and reports.

National-bank examiners shall be held to be employees in the office of the Comptroller of the Currency while examining associations whose business is covered by this act, and their fees for such examinations shall be paid out of the appropriation for the Bureau of the Currency. National-bank examiners.

The operation of so much of all laws or parts of laws as are in conflict with this act is hereby suspended.

NOTE.—The “visible gold”—gold in banks and in the United States Treasury—is reported by the Comptroller, on page 22, report of 1896, to be \$421,236,388.

Add to section 10, page 15, bill H. R. 3333:

The meeting together of any persons who are officers, agents, or employees of any five or more associations in any one or more places once in ten days or oftener for the purpose of exchanging, paying, or in any other way satisfying any obligations used in commerce among the several States by any two or more of such associations, shall constitute such associations represented in such meeting a clearing-house association for the purpose of the taxation herein imposed, and such associations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a duty in amount equal to one one-fiftieth of one per centum on the aggregate amount of all such exchanging, paying, or in any way satisfying such obligations, at each and every meeting of persons acting for such associations: *Provided, however,* That in case any such association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted: *And provided further,* That the tax herein imposed on associations herein described shall be wholly remitted to each one and all associations that are members of clearing houses incorporated under this Act.

CHANGES IN THE CURRENCY SYSTEM.

Banking power per capita.

	1860.				1897.			
	New Eng-land States.	Eastern States.	South-ern States.	Middle States.	New Eng-land States.	Eastern States.	South-ern States.	Middle States.
Capital.....	\$39.97	\$19.09	\$10.22	\$3.84	\$22.69	\$8.47	\$2.94	\$5.15
Deposits.....	13.99	17.50	5.15	1.54	38.43	25.95	5.75	13.12
Currency.....	15.16	6.39	7.21	3.96	9.57	3.62	.80	1.64
Total.....	69.12	42.98	22.58	9.34	68.99	38.04	9.49	19.91
Total for 1860.....					69.12	42.98	22.58	9.34
Excess in 1860 over 1897 power to make loans.....					.13	4.94	13.09	.....
Excess in 1897 over 1860 power to make loans.....								9.57

The Southern States have a population of 20,278,000 \times \$13.09 = \$265,439,000 less quick capital to do their business with proportionately under the national banking system than in 1860, or than they would have under a banking and currency system universal in Europe and Canada.

Personal property per capita in Southern States in 1860:

Including slaves \$278
 Slaves free, 1890..... 219

EXCLUDING SLAVES 1860 216

SLAVES FREE, 1890 247

TABLE C, page 365—corrected.

State.	Year.	Percentage of currency to—				Percentage of specie to—			Per- cent- age of loans and dis- counts to total of cap- ital and de- posits.	SEE FOOT- NOTE.	Total na- tional and State bank- ing cap- ital per cap- ita.	Cir- cu- la- tion per cap- ita.
		Cap- ital.	De- posits.	Loans and dis- counts.	Total cur- rency and de- posits.	Cur- ren- cy.	Loans and dis- counts.	Cur- rency and de- posits.				
Maine	1856	64	240	39	71	15	6	10	130	55	.....	\$8.08
	1896	46	33	22	25	22	5	6	84	.....	.....	7.69
Massachusetts	1856	45	109	26	52	17	4	9	122	38	.....	21.56
	1896	45	28	19	22	22	4	5	88	.....	.....	9.06
Vermont	1856	103	498	54	83	5	3	4	157	99	.....	12.60
	1896	49	40	28	29	19	5	5	79	.....	.....	10.24
Rhode Island	1856	27	176	19	64	10	2	6	122	34	.....	31.62
	1896	38	38	21	28	16	3	4	91	.....	.....	21.08
New York, except New York City	1856	76	113	28	56	5	1	3	166	113	.....	7.48
	1896	47	15	15	13	49	7	6	78	.....	.....	3.67
New York City	1856	15	12	8	11	130	11	15	88	.....	.....	10.32
	1896	41	8	7	7	240	10	17	97	a 10	.....	13.65
Virginia (old)	1856	96	250	51	68	24	12	16	132	58	.....	10.67
Virginia (and West Virginia)	1896	39	14	12	12	59	7	7	83	.....	6.25	1.14
North Carolina	1856	96	522	50	84	24	12	20	162	85	.....	5.73
	1896	26	14	11	13	73	8	9	88	.....	2.93	5.79
South Carolina	1856	37	212	29	68	19	6	13	108	1	.....	2.93
	1896	24	12	7	11	47	3	5	107	.....	2.65	9.24
Georgia	1856	50	329	40	77	22	7	17	108	29	.....	2.96
	1896	31	17	13	14	60	8	9	84	.....	12.05	6.33
Louisiana	1856	38	49	26	32	113	30	37	83	.....	3.08	5.55
	1896	35	7	7	7	194	14	13	83	a 1	.....	10.20
Indiana	1856	112	231	65	83	35	29	29	117	59	.....	4.71
	1896	33	16	15	14	99	15	14	74	.....	3.38	8.89
Michigan	1856	79	42	29	30	27	8	8	95	7	.....	2.16
	1896	81	12	10	11	84	8	9	89	.....	1.54	7.77
Six New England States	1856	47	152	29	60	13	4	8	125	43	.....	1.96
	1896	36	22	16	18	38	6	7	88	.....	10.71	16.36
											.....	11.10

a Excess in 1896 over that of 1856.

NOTE.—Percentage of excess of loans made to capital and deposits in 1856, under the Suffolk system, which is the same as that of every European country and of the Walker bill (H. R. 3333) over 1896, under the present system.

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HEARINGS AND REPORTS .

OF THE

COMMITTEE ON BANKING AND CURRENCY

OF THE

HOUSE OF REPRESENTATIVES

RELATING TO

PROPOSED CHANGES IN THE CURRENCY SYSTEM
OF THE UNITED STATES.

PREPARED FOR PUBLICATION BY
FRANK ROE BATCHELDER,
CLERK OF THE COMMITTEE.

FIFTY-FIFTH CONGRESS, THIRD SESSION.

1898-99.

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1899.

COMMITTEE ON BANKING AND CURRENCY.

FIFTY-FIFTH CONGRESS.

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P.

W. H. S. Dickinson

24 1898

THE INCORPORATION OF CLEARING HOUSES UNDER FEDERAL LAW FOR THE PROTECTION OF COMMERCIAL CREDIT.

COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C., Wednesday, April 13, 1898.

The committee met at 10.30 a. m., Hon. Joseph H. Walker in the chair.

Present: Messrs. Walker, Johnson, Van Voorhis, McCleary, Fowler, Spalding, Hill, Southwick, Prince, Mitchell, Capron, Cox, and Ermentrout.

Theodore Gilman, esq., a banker of New York City, appeared before the committee in advocacy and explanation of the bill H. R. 9279.

[Bill H. R. 9279, Fifty-fifth Congress, second session.]

In the House of Representatives, March 17, 1898. Mr. Bartholdt (by request) introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.

A BILL to protect and support commercial credit, to equalize rates of interest, to provide for the incorporation of clearing houses, to regulate and define their operations, to provide a clearing-house currency secured by pledge of commercial assets and the responsibility of the associated banks, and to provide for the circulation and redemption thereof.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That associations, to be known as clearing houses, for the settlement of money transactions by effecting clearances between banks, and for doing other business for and between banks not inconsistent with the provisions of this act, may be formed by any number of banks not less than five duly incorporated, either under the national currency act or under the laws of any State or Territory, of which a majority shall be organized under the national currency act, in any city of not less than six thousand inhabitants, who shall enter into articles of association for the regulation of the business of the association and the conduct of its affairs, which said articles shall be approved by the stockholders of each bank uniting to form the association at a meeting called for the purpose and shall be signed by the officers of each bank by authority conferred upon them to do so by vote of the stockholders, and a copy of them forwarded to the Comptroller of the Currency, to be filed and preserved in his office.

SEC. 2. That the banks uniting to form such an association shall, by their proper officers, make an organization certificate, which shall specify—

First. The name assumed by such association, which name shall be "The Clearing House of (giving the name of the city where located and where its business of effecting clearances shall be carried on)."

Second. The names, the amounts of the capital stock, and the number of shares into which it is divided, of the banks composing the association.

Third. A declaration that said certificate is made to enable such banks to avail themselves of the advantage of this act.

The said certificate shall be acknowledged before a judge of some court of record or a notary public, and such certificate, with the acknowledgment thereof authenticated by the seal of such court, shall be transmitted to the Comptroller of the Currency, who shall record and carefully preserve the same in his office. Copies of such certificate, duly certified by the Comptroller and authenticated by his seal of office, shall be legal and sufficient evidence in all courts and places within the United States or the jurisdiction of the Government thereof of the existence of such association and of every other matter or thing which could be proved by the production of the original certificate.

SEC. 3. That every association formed pursuant to the provisions of this act shall, from the date of the execution of its organization certificate, be a body corporate, but shall transact no business except such as may be incidental to its organization, and necessarily preliminary, until authorized by the Comptroller of the Currency to commence the business of effecting clearances. Such associations shall have power to adopt a corporate seal, and shall have succession by the name designated in its organization certificate for the period of twenty years from its organization, unless sooner dissolved according to the provisions of its articles of association or by act of the banks owning two-thirds of the capital stock represented in the association, or unless the franchise shall be forfeited by a violation of this act; by such name it may make contracts, sue and be sued, complain and defend in any court of law or equity as fully as natural persons; it may elect or appoint directors, and by its board of directors appoint a president, vice-president, treasurer, and other officers, define their duties, require bonds of them, and fix the penalty thereof, dismiss said officers, or any of them, at pleasure, appoint others to fill their places, and exercise under this act all such incidental powers as shall be necessary to carry on the business of a clearing house for the settlement of money transactions by the mutual set-off of debits and credits, commonly called making clearances for banks, and by obtaining and issuing to the banks composing the association notes according to the provisions of this act, and by acting as trustee for the note holders in accordance with the provisions of this act, by receiving and holding in trust securities pledged by the members of the association as collateral to the notes issued to them, to be called "clearing-house currency," and by acting for the members of the association in their united capacity when authorized to do so by a majority vote of said members; and its board of directors shall also have power to define and regulate by by-laws not inconsistent with the provisions of this act the manner in which its directors shall be elected or appointed, its officers appointed, its property transferred, its general business conducted, and all the privileges granted by this act to associations organized under it shall be exercised and enjoyed; and its usual business shall be transacted at an office or banking house located in the place specified in its organization certificate.

SEC. 4. That the affairs of every association shall be managed by not less than nine directors, one of whom shall be the president, a majority of whom shall be directors in banks, members of the association which are organized under the national currency act. Every director shall, during his whole term of service, be a citizen of the United States, and at least two-thirds of the directors shall have resided in the State, Territory, or district in which such association is located one year next preceding their election as directors, and be residents of same during their continuance in office. Each director when appointed or elected shall take an oath that he will, so far as the duty devolves on him, diligently and honestly administer the affairs of such association and not knowingly violate, or willingly permit to be violated, any of the provisions of this act, which oath, subscribed by himself and certified by the officer before whom it is taken, shall be immediately transferred to the Comptroller of the Currency, and by him filed and preserved in his office. At the annual meetings there shall be appointed or elected a loan committee, whose duties shall be as described in sections nine and ten of this act. Members of this committee shall not be eligible for reelection or reappointment until one year after their terms of office shall have expired. They shall be divided into three classes at their first election or appointment, one-third shall serve one year, one-third two years, and one-third three years, and at every election or appointment thereafter they shall be elected or appointed for a term of three years.

SEC. 5. That the directors of any association first elected or appointed shall hold their places until their successors shall be elected and qualified. All subsequent elections shall be held annually on such day in the month of January as may be specified in the articles of association, and directors so elected shall hold their places for one year, and until their successors are elected and qualified; but any director having in any manner become disqualified shall thereby vacate his place. Any vacancy in the board shall be filled by appointment by the remaining directors, and any director so appointed shall hold his place until the next election. If from any cause an election of directors shall not be made at the time appointed the association shall not for that cause be dissolved, but an election may be held on any subsequent day, thirty days' notice thereof in all cases having been given in a newspaper published in the city, town, or county in which the association is located. If the articles of association do not fix the day on which the election shall be held, or if the election should not be held on the day fixed, the day for the election shall be designated by the board of directors in their by-laws or otherwise: *Provided*, That if the directors fail to fix the day, as aforesaid, banks representing two-thirds of the capital stock represented in the association may.

SEC. 6. That in all elections of directors, and in deciding all questions at meetings of members of the association, each bank member shall be entitled to a representation equal to the minimum number of directors allowed by law to said bank, but no bank organized under a State or Territorial law shall be entitled to a greater

representation at such meetings than that of a national bank. Directors of a bank who shall be appointed to represent said bank at meetings of the association may vote by proxy duly authorized in writing, but no officer, clerk, teller, or bookkeeper of such association shall act as proxy, and no bank any of whose liabilities are past due and unpaid shall be allowed representation in the board of directors or at the meetings of the association.

SEC. 7. That if, upon a careful examination of the facts so reported, and of any other facts which may come to the knowledge of the Comptroller, whether by means of a special commission appointed by him for the purpose of inquiring into the condition of such association or otherwise, it shall appear that such association is lawfully entitled to commence the business of a clearing house as described in this act, the Comptroller shall give to such association a certificate, under his hand and official seal, that such association has complied with all the provisions of this act required to be complied with before being entitled to commence the business of a clearing house under it, and that such association is authorized to commence said business accordingly; and it shall be the duty of the association to cause said certificate to be published in the city or county where the association is located for at least sixty days after the issuing thereof.

SEC. 8. That the clearing-house association organized under this act, in the chief commercial city in each State, or in the city most central and convenient for business in each State, or any clearing house so organized effecting bank clearings of over two hundred million dollars annually, to be designated and approved by the Comptroller of the Currency, shall be made a clearing house of issue. And if there shall be more than one clearing house of issue in a State, then the Comptroller of the Currency shall divide the State into clearing-house districts, and banks in each State or district shall do business only with the clearing house of issue in their State or district.

SEC. 9. That a clearing house of issue shall be authorized and empowered to receive from its bank members, or from any bank member of a clearing house within its State or district, with the approval of the directors of said clearing house, commercial assets, promissory notes, bills of exchange, convertible bonds and stocks, and other securities and evidences of debt as collateral security for the circulating notes of the said association, to be issued as provided in this act, and on the approval of the value of said commercial assets by its loan committee, the said clearing house of issue may deliver to said bank member seventy-five per centum of said value in its said circulating notes as an advance upon said pledged property, and shall require from said bank member its promissory note of equal amount, which note shall be in form as approved by said clearing house of issue. The bank member taking said circulating notes shall engage to redeem them in the lawful money of the United States at all times upon demand of payment duly made during the usual hours of business at the office of such bank member, and also when called upon to do so by the clearing house issuing the notes, and to give any additional collateral needed to restore any depreciation in the value of the assets pledged, on demand; and on failure to comply with such demands before the close of business hours of the day when made said bank member shall be adjudged in default, and shall be thereupon closed pending an examination by a committee from the association which issued the notes. On recommendation by the examining committee the loan committee shall proceed to liquidate the loan by turning the securities into cash, in accordance with the method provided in section ten. The bank member taking said notes may release its securities from pledge by depositing with the said clearing house of issue clearing-house currency, United States legal-tender notes, or coin certificates, with any charges made by said clearing house of issue, whereupon it shall be entitled to and shall receive all its securities so pledged. The charges shall be regulated by each clearing house of issue. Upon the receipt of such deposit the clearing house of issue shall immediately give notice in a newspaper published in the city, town, or county in which the association is located, which notice shall be published at least once a week for six months successively, that the notes of such bank member will be redeemed at par, and that all the outstanding circulating notes of such bank member must be so presented for redemption within six years from the date of such notice, and all notes which shall not be thus presented for redemption and payment within the time specified in such notice shall cease to be a charge upon the funds in the hands of the clearing house for that purpose. At the expiration of such notice it shall be lawful for the clearing house of issue to surrender, and such bank member, or its legal representative, shall be entitled to receive, all the money remaining after such redemption, except so much thereof as may be necessary to pay the reasonable expenses chargeable against the said accounts, including the payment for the publication of the above-mentioned notices.

SEC. 10. That each bank member taking such circulating notes shall guarantee the clearing house of issue from loss resulting from such issue to them, and in case of a default in the payment of a loan when demanded by the clearing house of issue or of default arising in any other manner, then it shall be the duty of said clearing house of issue to levy upon all the clearing houses in said State or district, in pro-

portion to the capital of their bank members, a sufficient sum to provide for the payment of said loan, which sum shall be held for the payment and redemption of the circulating notes so issued. And if enough money can not be obtained by such assessments, then it shall be the duty of said clearing house of issue to report to the Comptroller of the Currency the fact of said default, and it shall be his duty to levy a further assessment upon all the clearing houses organized under this act in all the States and Territories until such sum is secured, in which case the funds so raised by the Comptroller shall be paid by him to the Treasurer of the United States as a special fund to pay the circulating notes of the defaulting bank member; and he shall appoint a receiver for the collateral securities to the loan or loans in default, who shall take possession thereof and turn them into cash and distribute the proceeds to the banks which have contributed to the assessment, and any surplus after reimbursing them their advances shall be handed over to the bank member in default or its legal representative. But if the assessment by the clearing house of issue on the banks of its State or district is sufficient to provide the needed funds, then the collaterals shall be administered upon and turned into cash by the loan committee or by a liquidating committee of said clearing house of issue, and the cash proceeds shall be appropriated as above provided. At no time shall the total amount of such notes issued to any bank member exceed the amount at such time actually paid in of the capital stock of the bank member so applying. And said loan committee are charged with the duty of supervising said loans so as to maintain the margin of value of the collateral security, and shall demand additional securities to make good any depreciation in their value, and they may allow withdrawals and substitutions of securities which shall not diminish the said value.

SEC. 11. That a clearing house of issue shall be authorized and empowered to receive from its bank members gold coin of the United States of full weight, and may deliver to said bank member its circulating notes at the par of the gold coin so deposited, and the said bank member shall engage to redeem said circulating notes at all times when called upon to do so by the association issuing them. Such notes may be issued to any bank member in exchange for gold coin without regard to the amount of the capital stock of the bank depositing the gold coin. The clearing house of issue shall make report of notes so issued to the Comptroller of the Currency and shall make no charge for the issue of its notes against the deposit of gold.

SEC. 12. That in order to furnish suitable notes for circulation as provided in this act, the Comptroller of the Currency is hereby authorized and required, under the direction of the Secretary of the Treasury, to cause plates and dies to be engraved, in the best manner, to guard against counterfeiting and fraudulent alterations, and to have printed therefrom, and numbered, such quantity of circulating notes, in blank, of the denominations of one dollar, two dollars, five dollars, ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, and one thousand dollars, as may be required to supply under this act the associations entitled to receive the same, which notes shall express upon their face that they are secured by deposit with the clearing house of issue at (naming the city) of commercial assets at seventy-five per centum of their market value, or of gold coin at its par value, and that said clearing house holds said assets or gold coin as trustee for the note holder to secure their payment, which payment is guaranteed by the associated banks of the United States through any clearing house, and shall be attested by the signatures of the president or vice-president and treasurer of said clearing house of issue as for account of the bank member receiving said notes; and on requisition of a clearing house of issue the comptroller of the currency shall forward the amount of blank notes in denominations as called for as may be required to supply the bank member entitled to receive the same under this act.

SEC. 13. That after any such clearing house of issue shall have caused its promises to pay such notes on demand to be signed by the president or vice-president and treasurer thereof, in such manner as to make them obligatory promissory notes, payable on demand, such clearing house of issue shall deliver them to the bank member entitled to receive them, who is hereby authorized to issue and circulate the same as money, and the same shall be received at par at all the clearing houses in the United States organized under this act; and said clearing house of issue shall thereupon forward to the Comptroller of the Currency a certificate setting forth the amount of notes delivered, the name of the bank member receiving same, and the amount of the collateral security held in trust for their redemption.

And every bank member of every clearing house organized under this act shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any clearing house of issue organized under this act.

The meeting together of any persons who are officers, agents, or employees of persons, firms, or corporations in any one or more places once in thirty days or oftener, for the purpose of exchanging, paying, or in any other way satisfying any obligations used in commerce among the several States by any two or more of such persons, firms, or corporations, or for the purpose of the settlement of money transactions by the mutual set-off of debits and credits, commonly called making clearances for

banks, shall constitute such persons, firms, or corporations represented in such meeting a clearing house association, for the purpose of the taxation herein imposed, and such persons, firms, or corporations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a duty in amount equal to one one-fiftieth of one per centum on the aggregate amount of all such obligations exchanged, paid, or in any way satisfied, or on the aggregate amount of the money transactions settled by the mutual set-off of debits and credits, at each and every meeting of persons acting for such persons, firms, or corporations: *Provided, however,* That in case any such clearing-house association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be and is hereby remitted: *And provided further,* That the tax herein imposed on clearing-house associations herein described shall be wholly remitted to all members of clearing houses that are incorporated under this act.

SEC. 14. That it shall be the duty of the clearing house of issue to receive worn-out or mutilated circulating notes issued by it to any bank member, and also, on due proof of the destruction of any such circulating notes, to deliver in place thereof other circulating notes of like tenor and amount. And such worn-out or mutilated notes, after a memorandum shall have been entered in the proper books, as may be established by the clearing house of issue, as well as all circulating notes which shall have been paid or surrendered to be canceled, shall be burned to ashes in presence of three persons, one to be appointed by the Comptroller of the Currency, one by the clearing house of issue, and one by the bank member on whose account they were issued; and a certificate of such burning shall be made on the books of the clearing house of issue, and duplicates forwarded to the Comptroller of the Currency and to the bank member whose notes are thus canceled.

SEC. 15. That it shall be unlawful for any officer acting under the provisions of this act to countersign or deliver to any association or to any other company or persons any circulating notes contemplated by this act, except as hereinbefore provided and in accordance with the true intent and meaning of this act. Any officer who shall violate the provisions of this section shall be deemed guilty of a high misdemeanor, and on conviction thereof shall be punished by fine not exceeding double the amount so countersigned and delivered and imprisonment not less than one year and not exceeding fifteen years, at the discretion of the court in which he shall be tried.

SEC. 16. That it shall be lawful for any such association to purchase, hold, and convey real estate as follows:

First. Such as shall be necessary for its immediate accommodation in the transaction of its business.

Second. Such as shall be mortgaged to it in good faith by way of security for debts previously contracted.

Third. Such as shall be conveyed in satisfaction of debts previously contracted in the course of its dealings.

Fourth. Such as it shall purchase at sales under judgment, decrees, or mortgages held by such association, or shall purchase to secure debts due to said association.

Such association shall not purchase or hold real estate in any other case or for any other purpose than as specified in this section, nor shall it hold the possession of any real estate under mortgage, or hold the title and possession of any real estate purchased to secure any debts due to it for a longer period than five years.

SEC. 17. That the plates and special dies to be procured by the Comptroller of the Currency for the printing of such circulating notes shall remain under his control and direction, and the expense necessarily incurred in executing the provisions of this act, respecting the procuring of such notes and all other expenses of the bureau, shall be assessed each year upon the clearing houses organized under this act, in proportion to the capital stock of their members.

SEC. 18. That the Comptroller of the Currency, with the approbation of the Secretary of the Treasury, as often as shall be deemed necessary or proper, or at the request of any clearing house, shall appoint a suitable person or persons to make an examination of the affairs of every association organized under this act, which person shall not be a director or other officer in any association whose affairs he shall be appointed to examine, and who shall have power to make a thorough examination into all the affairs of the association, and in doing so to examine any of the officers and agents thereof on oath, and shall make a full and detailed report of the condition of the association to the Comptroller, who shall fix the compensation for his services.

SEC. 19. That every president, director, treasurer, teller, clerk, or agent of any association who shall embezzle, abstract, or willfully misapply any of the moneys, funds, or credits of the association, or shall, without authority from the directors, issue or put in circulation any of the notes of the association, or shall, without such authority, assign any note, bond, draft, bill of exchange, mortgage, judgment, or decree, or shall make any false entry in any book, report, or statement of the

association with intent in either case to injure or defraud the association, or any other company, body, politic or corporate, or any individual person, or to deceive any officer of the association, or any agent appointed to examine the affairs of any such association, shall be deemed guilty of a misdemeanor, and upon conviction thereof shall be punished by imprisonment not less than five nor more than ten years.

SEC. 20. That every person who shall mutilate, cut, deface, disfigure, or perforate with holes, or shall unite or cement together, or do any other thing to any note issued by any such association, or shall cause or procure the same to be done, with intent to render such note unfit to be reissued by said association, shall, upon conviction, forfeit fifty dollars to the association who shall be injured thereby, to be recovered by action in any court having jurisdiction.

SEC. 21. That if any person shall falsely make, forge, or counterfeit, or cause or procure to be made, forged, or counterfeited, or willingly aid or assist in falsely making, forging, or counterfeiting, any note in imitation of, or purporting to be in imitation of, the circulating notes issued under the provisions of this act, or shall pass, utter, or publish, or attempt to pass, utter, or publish, any false, forged, or counterfeited note, purporting to be issued by any association doing business under the provisions of this act, knowing the same to be falsely made, forged, or counterfeited, or shall falsely alter, or cause or procure to be falsely altered, or willingly aid or assist in falsely altering, any such circulating notes, issued as aforesaid, or shall pass, utter, or publish, or attempt to pass, utter, or publish, as true, any falsely altered or spurious circulating note issued, or purporting to have been issued, as aforesaid, knowing the same to be falsely altered or spurious, every such person shall be deemed and adjudged guilty of felony, and being thereof convicted by due course of law shall be sentenced to be imprisoned and kept at hard labor for a period of not less than five years nor more than fifteen years, and fined in a sum not exceeding one thousand dollars.

SEC. 22. That if any person shall make or engrave, or cause or procure to be made or engraved, or shall have in his custody or possession any plate, die, or block after the similitude of any plate, die, or block from which any circulating notes, issued as aforesaid, shall have been prepared or printed, with intent to use such plate, die, or block, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any blank note or notes engraved and printed after the similitude of any notes issued as aforesaid, with intent to use such blanks, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, or shall have in his custody or possession any paper adapted to the making of such notes, and similar to the paper upon which any such notes shall have been issued, with intent to use such paper, or cause or suffer the same to be used, in forging or counterfeiting any of the notes issued as aforesaid, every such person, being thereof convicted by due course of law, shall be sentenced to be imprisoned and kept to hard labor for a term not less than five nor more than fifteen years, and fined in the sum not exceeding one thousand dollars.

SEC. 23. That it shall be the duty of the Comptroller of the Currency to report annually to Congress at the commencement of its session:

First. A summary of the operations and condition of every association from whom reports have been received the preceding year, at the several dates to which such reports refer, with an abstract of the whole amount of their debts and liabilities, the amount of circulating notes outstanding, and the total amount of means and resources, specifying the amount of lawful money held by them at the times of their several returns, and such other information in relation to said associations as in his judgment may be useful.

Second. A statement of associations whose business has been closed during the year, with the amount of their circulation redeemed and amount outstanding.

Third. Any amendment to the laws relative to clearing houses, by which the system may be improved, and the security of the holders of their notes may be increased.

Fourth. The whole amount of the expenses of carrying out the provisions of this act. And such report shall be made by or before the first day of December in each year, and the usual number of copies, for the use of the Senate and House, and one thousand for the use of the Department, shall be printed by the Public Printer and in readiness for distribution at the first meeting of Congress.

SEC. 24. That the clearing houses organized under this act may organize among themselves associations to include the banks members thereof in any State or district, and may hold annual conventions and meetings at other times, for the formulation of rules and regulations for the conduct of their affairs and for the discussion of financial subjects and for the preservation and exchange of information to govern the granting of credits, and when approved by the Secretary of the Treasury, such rules and regulations shall be binding upon the banks and clearing houses within said State and district.

SEC. 25. That clearing houses organized under this act may form a national association, which shall meet in convention annually, and whose object shall be the promotion of the interests of the banks of the United States receiving the benefits of this act, and said convention may pass rules and regulations to govern the operations of clearing houses and the banks connected with same, which, when approved by the Secretary of the Treasury, shall be binding upon such clearing houses. The delegates to a State or district convention shall number one hundred, and to a general convention three hundred, which numbers divided into the aggregate of the banking capital represented will give in each case the amount of capital to be taken as the basis of representation. The Comptroller of the Currency may unite banks into voting groups where their separate capital is below the basis of representation, and each group shall be entitled to one representative. All elections of representatives to conventions shall be by a majority vote of the directors entitled to vote of single banks and banks composing groups; each bank shall have a vote equal to the minimum number of directors allowed to it by law, but no bank shall be allowed more votes than shall be given to a national bank, and no bank shall have more than one representative in the national association.

Mr. Gilman addressed the committee as follows:

STATEMENT OF MR. THEODORE GILMAN, BANKER, OF NEW YORK CITY, N. Y.

MR. CHAIRMAN AND GENTLEMEN OF THE COMMITTEE: In response to the request of the chairman, I will state that my place of business is in New York City. I have been a banker there ever since 1862. My relations have been all over the country, East and West, chiefly outside of New York City.

The **CHAIRMAN.** A private banker?

Mr. **GILMAN.** Yes, sir.

The **CHAIRMAN.** What is the firm name?

Mr. **GILMAN.** Gilman, Son & Co.

With your leave I will read this letter:

THE STATE BANK OF ST. LOUIS,
St. Louis, Mo., April 9, 1898.

Hon. J. H. WALKER,
*Chairman Banking Committee,
House of Representatives, Washington, D. C.*

DEAR SIR: I see your committee are to meet on the proposed emergency currency plan of Mr. Theodore Gilman on the 13th instant. I am of the opinion that some plan for such a currency ought to be passed.

You will find in Mr. Gilman's book a few suggestions made by me regarding such a currency and a schedule regarding same.

If we could have had a hundred millions of such currency in 1893 it would have saved half or two-thirds the ill effects of the panic. It may be the present Cuban trouble will make some such measure invaluable now. I can but think something in this direction can be made of immense value to the country.

Very respectfully, yours,

CHARLES PARSONS.

I would like to make two remarks about this letter. One is I was immediately struck with the similarity of this opinion of Mr. Parsons to that of Mr. J. R. McCulloch in 1849 in reference to the panic of 1837.

The **CHAIRMAN.** Mr. McCulloch who was formerly Secretary of the Treasury?

Mr. **GILMAN.** No, sir; Mr. McCulloch, of London, the great British financial authority. He wrote that had this principle of a secured currency been adopted then, the crisis of 1837 to 1839 would have been obviated or materially mitigated. Fifty years afterwards Mr. Charles Parsons makes the same remark in reference to the panic of 1893.

The **CHAIRMAN.** We would be glad if, when you refer to different gentlemen, you would state what positions they hold or who they are.

Mr. **GILMAN.** Charles Parsons is president of the State Bank of St.

Louis, Mo., and a former president of the American Bankers' Association. I would also call your attention to the last three words of Mr. Parsons's letter—"to the country." He says: "I think something in this direction can be made of immense value to the country." He speaks as a patriot and not as a banker.

Mr. Gilman then proceeded to read a paper which he had prepared, as follows:

TWO SYSTEMS OF BANKING.

Mr. Chairman and gentlemen, there are only two systems of banking in use among civilized nations. One system is that in which each bank has a separate individual existence under the laws by which it is incorporated, and in which no bank has a superior position or different functions from any other.

The other system is that in which some banks have different functions and a superior position.

The perception of this distinction is necessary to the right understanding of the phase of the banking question we are about to consider, and, as examples assist in the understanding of abstract propositions, your attention is called to the fact that there are now in the hands of this committee two bills which represent these two systems. One is the bill H. R. 9725, prepared by your subcommittee and introduced in the House of Representatives on April 5, 1898, and the other is bill H. R. 9279, which is the subject of the present hearing. Bill H. R. 9725 represents a system composed of individual banks, and bill H. R. 9279 represents a graded system.

THE COMPETITIVE SYSTEM.

The fundamental points of difference between these two systems may be briefly summed up as follows: While bill H. R. 9725 has incorporated in it some special features, which will be hereafter considered, it does not depart from or change the chief characteristic of the national-bank act, which is that it provides for individual independent banks, with no relations to each other, and dependent for their solvency upon a cash reserve of a certain percentage of their obligations. From this it necessarily results that in a time of stringency each individual bank becomes a competitor with every other bank for the cash needed to replenish and maintain its reserves, and the only legal means for keeping up the required percentage of lawful money is by restricting discounts and loans and compelling the business public to liquidate and pay up. The methods of this system all naturally gravitate toward and end in panic. Proper names for this system are the ungraded or competitive, or restrictive, or "panic system," according as its different characteristics are to be emphasized.

THE COOPERATIVE SYSTEM.

Bill H. R. 9279, on the other hand, provides for the incorporation of clearing houses with limited functions, differing from the existing national banks, but organically connected with them, chief among the functions given to the clearing houses being that conferred upon at least one in each State, which empowers such clearing house to receive from its bank members and to hold as trustees for the public bank assets and to issue thereon at 75 per cent of their ascertained value

circulating notes good at any clearing house in the land. The object of this provision is to sustain commercial and banking credit in times of lack of confidence by providing a means by which demands for circulating notes of undoubted credit may be met, and thereby commerce and trade be sustained without shock to credit.

By this system different functions are bestowed on clearing houses than are or can be safely possessed by commercial banks. Clearing houses are one remove farther away from the business community with their urgent appeals than are popular banks, and their action would therefore be more conservative in this all-important matter of the issue of currency. At the same time they are so closely connected with commercial banks that they can be appealed to and make instant response in case of need. By the incorporation of clearing houses under a Federal law with these special functions a banking system is constituted and it is made cooperative instead of competitive, expansive in case of need instead of restrictive, and forced liquidations and panic are avoided. The clearing houses of the country are thus brought into the closest relations with all commercial banks, and those relations are strictly defined by law, which now they are not, and this union of higher and lower brings all banking operations under the supervision of the Government and constitute a true national-banking system.

The methods of the system so constituted all conspire toward and result in sustaining and protecting commercial credit even under the severest test. Proper names for this system are a graded or cooperative or expansive system, or a system of ample available bank reserves.

THE COMPETITIVE SYSTEM FOR PRIVATE PROFIT, THE COOPERATIVE FOR THE BENEFIT OF THE PUBLIC.

There is another difference between these two systems more fundamental and important. It is that the ungraded, competitive, restrictive, panic system is principally constructed for the private pecuniary benefit of the individual banks, while the graded system, with its cooperation, expansion, and ample available reserve, is chiefly for the benefit of the public. Webster said, "Banks are made for the borrowers. They are made for the good of the many and not for the good of the few." The trend of the provisions of the ungraded system is for the protection and profit of the individual bank even to the extent of causing for its protection widespread losses to the commercial public by panic and forced liquidation, while the provisions of a graded system have as their chief object the protection and support of the business interests of the public. These two bills now before this committee are, therefore, in their ultimate analysis, the one, H. R. 9725, a bill for private ends and profits, and H. R. 9279 a bill for the benefit of the interests of the public.

TWO NEW FEATURES IN BILL 9725.

A clear understanding of this latter bill, H. R. 9279, for which this hearing is given, will be promoted by incidentally explaining and describing the true nature of the former.

It has already been said that an examination of bill H. R. 9725 shows that it does not change the banking principle contained in and limited by the present national-bank act. The bill adds, however, two features not contained in that act by proposing the issue of reserve notes to take up Government notes and the issuing of circulating notes against bank assets in the hands of the banks.

These are details which are not distinctive and which might be added to any other system or to this system at any other time. Their addition might be approved by some and disapproved by others, but they are only modifications of the present national-banking system, and they leave it in its fundamental features just as at present, a series of separate individual banks numbered one up to over three thousand, and each bank is like every other in all its powers, privileges, and functions.

RESERVE NOTES.

It is hardly necessary to consider the feature of the bill which provides reserve notes of banks in place of Government notes, because the fundamental principle of the system is not changed thereby. Also the obligation of the Government regarding the reserve notes is only suspended or dormant, and on the failure or liquidation of a national bank it revives. The relief from the burden of redemption is, therefore, only temporary, and it would be certain to revive at a time when banks generally would be in trouble, and then the plague of redemption would exist as before and under the most unpropitious circumstances.

The Government is too big to hide behind the banks. It must take care of itself. It has had an Independent Treasury since 1840, and no step should now be taken to obliterate the strong line of division between the fiscal operations of the Government and the commercial business of the people.

UNSECURED BANK NOTES.

Nor is it worth while seriously to consider the issue of circulating notes by 3,000 separate individual banks against securities in their own possession, because it also does not change the character of the old system. Moreover, the principle of a currency, secured by assets in the hands of a trustee, has become too thoroughly ingrained in the thoughts of the people to admit of being dislodged at the present time. Bank notes on assets in the hands of banks are the most explosive form in which bank credit can be put, and bills issued by 3,000 banks would be certain to produce and aggravate a panic. Why does not the bill provide that these notes shall be accepted by all national banks at par? Is it because they are good enough for the people but not good enough for the banks?

These two features of reserve notes and unsecured bills are joined together, and the banks are required by the bill to incur the obligation of redeeming the debt of the Government assumed by them as a compensation for the privilege of an unsecured note issue. The inducement held out to the banks to do this is the privilege of note issues on their own assets. This is a great concession and a good source of income to banks and a fruitful one in losses to the public.

THE PUBLIC, NOT THE BANKS, SUFFER FROM CONTRACTION.

Experience has shown that banks can exercise the function of unsecured note issue and continue to pay dividends even though the public suffers from the resulting panic. In 1837 the banks continued to pay dividends while the country was ruined by the liquidation caused by the retirement of their note issues. Banks have a claim equal to a mortgage on the property of the community, and if a demand for money occurs, they can force liquidations and get back the money loaned,

though the borrower is forced to the wall. Unsecured note issues contract with greater rapidity than any other form of bank credit, and are the greatest source of danger to the business community, but the banks themselves do not suffer from the contraction. So the privilege of note issue on assets in their hands is coveted by banks, and it is used in bill H. R. 9725 to induce them to assume the obligations of redeeming Government notes, which, in the report on this bill, is acknowledged to be a heavy burden.

Granting all that is said in the report of your special subcommittee as to the safety of unsecured notes, the chief argument against them is left unanswered, that they are like scythes to mow down the business which the banks have created. As Governor Marcy said, in his message of January 3, 1837, of an unsecured paper circulation, this is an evil "against which it is the duty of the legislature to afford ample and certain protection."

TRUE NAME, "THE PANIC SYSTEM."

Bill H. R. 9725 is, therefore, the present competitive, restrictive, panic system of banking, with two additional features, the assumption of the payment of Government notes and the issue of notes on assets in the hands of each one of the 3,000 or 4,000 banks. Whether or not these two features are a recommendation or a disadvantage, the underlying, fundamental, controlling characteristic of the banking system contained in or proposed by the bill H. R. 9725 is the same as contained in the national-bank act; that is, one of separate, individual banks, no one of which is different in any respect from any other.

There is no cooperation between banks proposed in the bill, and in case of panic each of the 3,000 banks must fight for its own life. This produces restriction of banking facilities at the first sign of monetary disturbance, nor is there any provision for the support of commercial credit in time of panic. The true name for such a system is the "panic system."

GOVERNMENT FINANCES SHOULD BE INDEPENDENT.

I am not here to criticise this bill, and I only point out its chief characteristics as I understand them, that this committee may see clearly what is proposed to accomplish by bill H. R. 9279. That bill which is the subject of the present hearing is a banking and currency measure, and has nothing to do with the finances of the Government. These two subjects should be kept distinct. The independence of the United States Treasury from the banking operations of the people was established, as I have said, in 1840, and the advantages resulting to the Government from this separation have been almost universally acknowledged. The financial principle seems well established that the Government should take care of its obligations, and corporations created by the Government of theirs.

If the Government is in need of revenue to defray its expenses in peace or in war, it must find the ways and means to raise a revenue sufficient to meet them. If the demand notes of the Government are presented in excess of the ability of the Treasury to pay them in coin, the Government must find the ways and means to replenish its coin reserve. If Congress should decide not to make such provision, the banks must accept that decision for they are powerless to change it. Their province is to do business in the currency which the Government provides,

not to decide what that currency shall be. The laws of banking govern banking operations whether the currency is silver or gold or an irredeemable paper money. The whole matter of the currency of the Government is outside of the banking question, and the two should be separated and taken up and decided apart from each other. The banking system should not be the battlefield for warring currency factions.

Banking and currency are matters relating to corporations created by the Government and relating to the people and to their commercial transactions, all of whom are persons and subjects of the Government, so no apology is needed for asking the attention of the Committee on Banking and Currency to a bill which treats only and exclusively of banking and currency.

BENEFITS OF A GOOD BANK CURRENCY.

While Government and bank currency are two distinct questions, it is also true that a good banking currency will aid the country in maintaining a good Government currency. If the bank currency sustains and protects commercial credit, there would be less discussion of the money question. A good bank currency would give the advocates of silver and fiat money all they are striving for, while they would be grievously disappointed with the result of free silver and unlimited Government currency. The inflation caused by free silver or fiat money would take place once, and that would be the end of it. A few would be made rich, but it would not be the farmer, nor cotton grower, nor mechanic. Can the people of a mining State be sure that those who would amass fortunes would remain in those States to spend them? Would they not come east or go to London or Paris?

But a good banking system would remain in the State to perform its functions season after season and year after year, conveying the lifeblood of commerce through the veins and arteries of the body commercial that are now well-nigh bloodless and paralyzed. Free silver could not benefit a mining State as could free banking facilities. "Credit," said Daniel Webster, "has done more a thousand times to enrich nations than all the mines of all the world." So a bill to protect credit will do more to enrich the United States than its mines can ever do.

NATIONAL-BANK ACT SHOULD STAND WITHOUT AMENDMENT.

Bill H. R. 9279 does not disturb or conflict with the national-bank act. It is supplementary to it. Popular banks are provided for in the national-bank act, and the measure now under consideration proposes that that act shall stand without amendment. The national-bank act is admirable in all its provisions; it is the flower and fruit of republican banking legislation; it has served the people well these thirty-five years, it has their confidence, and is enshrined in their affections. A change in that act would be most risky and most serious. Moreover, no changes are required in it, for it is difficult to see how a general law could be made more perfect. Also hundreds, and perhaps thousands, of legal decisions have been rendered by the courts defining the meaning of its various sections, and successive Congresses have revised and amended it, and digests have been made of these decisions and amendments until a code of banking law has grown up in these thirty-five years around the national-bank act which is one of the most valuable products of our national legislation. To lose all this, to sweep it away with a new national-bank act, would inflict such a loss on our

people that it should not be thought of except under the direst necessity. No such necessity exists. What is needed is to complete the national-banking system, not to change it. Bill H. R. 9279 proposes to do that by incorporating our clearing houses under a Federal law, and thus bring all banking operations under Federal supervision and control.

COMPLETION OF NATIONAL BANKING SYSTEM.

The conception of the framers of the national-bank act is thus fulfilled by taking the last step necessary to bring all the banking operations of the country into the one system. When clearing houses are thus incorporated under a Federal law, it will be safe to give to them special functions which can not be conferred safely on popular banks, chief among which is the power to act as trustees for the public by holding in trust securities pledged by popular banks against which circulating notes may be issued at 75 per cent of their ascertained value, good and receivable at any clearing house in the nation.

This function can be safely given to at least one clearing house in each State, so as to secure a local issue of currency, and the exercise of this function will remedy the only defect in our banking system, which is the absence of the power of self-preservation and of the protection of commercial credit. This change would make it impregnable, and, like our judicial system, the foremost among the banking systems of all the nations of the earth.

THE PROTECTION AND SUPPORT OF COMMERCIAL CREDIT.

If it is asked what is the reason for this addition to our banking laws, the answer is, because there is no provision in the national-bank act and none is proposed in bill H. R. 9725 for the support of commercial credit, and for lack of such support we have seen of late years successive panics march over our land, destroying and prostrating business almost to the point of the exhaustion of the country. Every emergency or disaster, or war or rumor of war, reveals the weakness of our system, which trembles at the first approach of danger, because it is conscious of its lack of protection.

The great business need of our country to-day is the assurance of the protection of commercial credit.

COMMERCIAL CREDIT DEFINED.

The bill which is the subject of this hearing has for its chief object to support commercial credit. By commercial credit is meant the solvency of solvent individuals, firms, and corporations engaged in commerce and finance. To support the credit of solvent parties is to provide means and measures to insure their solvency. Solvency is that state of a sound concern, be it corporation, firm, or individual, in which it is able to provide the money necessary to carry on its business and meet its obligations out of its cash on hand, or upon sales of its notes or property, or by loans thereon.

Insolvency may overtake a concern by reason of losses and misfortunes, or insolvency may occur when the concern has met no losses and has ample bank balances to its credit and its hands full of good assets, but owing to a monetary disturbance it can not draw money from the bank or find purchasers for its property, however low the price may be fixed, or obtain loans on its notes, however well secured by valuable

assets. The support of commercial credit, which this bill contemplates, is that of solvent concerns who can make good and valid obligations, and who can offer abundant assets as security for loans, and of whose credit and ultimate solvency there can be no question.

It might appear that strong parties, individuals, firms, and corporations of the kind described are not in need of protection, but are amply able to take care of themselves, and it therefore becomes necessary to show that our present banking system does not contain provisions to afford this class sure protection to their solvency, nor does bill H. R. 9725 contain such.

CREDIT MAINTAINED BY CASH RESERVES.

It is first necessary to mention the fact that all business is done on the credit system; that every concern or individual having a surplus of unemployed cash will seek immediately to invest in some productive employment as much of its idle cash as may not be needed, retaining only so much thereof as may be required to meet demand calls. This is the universal practice in all business, whether commerce, manufacture, agriculture, mining, banking, or any other employment. Each department of business has its rule as to the safe amount which can be invested in a permanent way and what percentage of cash may be required to insure ability to meet all demands for cash. This percentage of idle or uninvested money each concern calls its reserve. The continual question among all corporations and business men is as to the amount of cash which should be kept on hand to insure solvency. On the one hand, there is the necessity of solvency, and on the other the desire to keep all capital employed, and there is a continual strife between the two. The difficulty in arriving at the correct ratio is so great that it has been found necessary to regulate by statute the percentages of reserves which shall be carried by banks and insurance companies.

THE CREDIT SYSTEM UNIVERSAL.

This survey shows that the whole business community is conducting its business of every shape and description on the credit principle. The basis of the idea of credit is that the business world has confidence that a firm or corporation can conduct its business safely with a cash reserve and that markets and banks will be open for sales and loans to provide all its possible needs.

There is a mutual dependence of all departments of business each upon the other, and if this cooperation does not exist solvency can not be maintained. Reserves must be kept up and be available, or solvency is destroyed. Markets must be open, or business comes to an end. Banks must be able to discharge all their functions, or business must be suspended and markets must be closed.

All business being thus mutually dependent and transacted on the principles of the credit system, it follows that each one and all of the 1,080,000 firms, corporations, and individuals engaged in business in the United States, according to mercantile reports, are doing business on credit, all have a cash reserve, greater or smaller, and all have assets, which in case of need they would turn into cash, either by sale or direct pledge or by making paper against them if their standing and responsibility would enable them to do so.

It can be safely said that there are no firms, individuals, or corpora-

tions doing business in the United States on a strictly cash basis; that is, no firms have all their cash in coin in their own custody and pay coin for all purchases and sell only for coin on delivery. A firm doing business in that manner would soon find themselves distanced by competition and unable to make money.

CREDIT SYSTEM MUST BE PROTECTED.

The basis of all business in the United States being the credit system, every business man is vitally interested in having the credit system work smoothly. He first wants to be absolutely sure that his reserve, which he calls his cash on hand, is at all times subject to his demand. This means that the banks which are the custodians of his cash shall be at all times ready to respond to his calls, even if he should ask for the payment of all that is due him.

He wants, secondly, that in case of need he shall be able to increase his cash means by pledge of either his credit or his assets for a temporary loan if the cash reserve he has provided has been diminished or exhausted, and, thirdly, he wants the markets open so that he may sell his property without sacrifice on the basis of a fair return to himself and a fair equivalent to a buyer.

ALL THE NATION INTERESTED.

This describes the condition and business wants of the 1,080,000 individuals, firms, and corporations doing business in the United States. Of these there are about 10,000 banks and 1,070,000 other concerns and individuals.

These 1,070,000 individuals, firms, and corporations represent those who are the owners of the manufactories, trading companies, and firms of the manifold descriptions which go to make up the various occupations of the people of the United States. They are the ones who give employment to the 2,500,000 employees engaged in railroad and other transportation; they pay the wages of the 5,000,000 operators in our factories of all kinds; they hire the 4,200,000 women and men who are engaged in domestic and personal service; they ultimately pay the salaries of the 1,000,000 men and women engaged in professional work. They are the busy, thinking, energetic, active, pushing men who are doing the manufacturing, merchandising, and trading of our country, and the welfare of their employees and dependents, and thus of the whole country, rests on the orderly working of the credit system. If a panic comes to upset that system, then distress is not only felt by the 1,070,000 individuals, firms, and corporations engaged in business, but by all their dependents, and the legislators who can devise and enact a law which will support the credit system will confer a benefit on every man, woman, and child throughout the nation.

This view of reserves is from the standpoint of the 1,070,000 concerns who make up the business community. We sometimes limit reserves to the idle cash held by banks, but in a true sense every business concern has its separate reserve, and it is represented by its bank balance or quick securities. Bank balances should be regarded as the reserves of the country.

PRESENT BANKING SYSTEM PRECARIOUS.

We can now see how precarious is the monetary situation in the United States if the country banks, as they are permitted to do under

the national-bank act, immediately lend out from 75 to 85 per cent of these reserves and then send one-half or two-thirds of the remaining cash to reserve agents, who in turn loan out 75 per cent of the cash reserve sent to them and hold the balance, not as a special fund for the benefit of the banks whose reserve it is, but merge it into their common reserve on all their general deposits, and at the same time have no way of repaying the reserves thus confided to them if an emergency arises, except by forcing liquidations on the borrowing public. The banks hold the reserves of the public ostensibly on demand and then put 80 per cent thereof beyond their call. This practice is a distinct weakening of the banking situation if there is no way by which the banks can get back this money except by distressing borrowers.

Suppose it should happen that all the deposit reserves should be called for by out-of-town banks, then a simple calculation shows that the banks in reserve cities would hardly be left with more than 5 per cent in cash on their remaining deposits, which would then amount to about \$750,000,000.

This state of affairs would be very alarming in any less intelligent country than the United States, and it exposes even us to a constantly recurring liability to spasms of apprehension and panic, during which the three objects desired by the business community and necessary for the support of the credit system are imperiled, viz, the payment of bank balances in cash, and the granting of needed loans to the business community, and the keeping of markets open.

PROTECTION TO CREDIT BY A SOUND CREDIT CURRENCY.

The simple expedient necessary to prevent this liability to apprehension is to enact laws to protect reserves, not only the reserves of the banks, but the reserves of the business community represented by bank deposits, and to give banks the power to grant accommodations as needed.

The power to issue a credit currency will do it, provided it is, as Professor Sumner expresses it, "of a credit which can not fail in the wildest panic."

A credit currency issued by 3,000 local banks on assets in their own hands, as proposed in bill H. R. 9725 would not answer. In a wild panic that would fail. It must have a credit second only to the Government, which will enable it to circulate freely from one end of the country to the other, because it is to do the service of maintaining the reserves of all the 1,070,000 individuals, firms, and corporations who are bearing the business burdens of the entire country and are paying the salaries and wages of the 15,000,000 to 17,000,000 workers, men and women, engaged in honest labor. It must be a currency which will go at par from Maine to Texas and up to the farthest point of Alaska. It must be able to support the credit of a solvent firm or corporation in Massachusetts by paying a debt due in Iowa, or vice versa. The transactions under the credit system are so interlaced and interwoven all over the country that that system can not be supported except by a currency of universal credit. The clause in the charter of the Bank of France states it plainly thus: "The essential interests of the country imperiously demand that every bank bill declared to be lawful money shall be able to circulate equally in all parts of the land."

EFFECTS OF APPREHENSION.

Whenever a spasm of apprehension comes, which of late years has been almost a chronic condition, the banks stop lending or discounting

and thus stop much productive business. That is the first effect. By it the availability of the collateral security reserves of business houses in the shape of bonds and dividend-paying stocks is cut off, and they must depend on their cash or bank deposit reserves only. If the apprehension deepens, even the use of this cash reserve is diminished and a next step is taken when the banks find it necessary to strengthen their own cash reserve by absorbing cash from the general public. The movement is a progressive one, and the tightening goes on until enough of the life blood of commerce is squeezed out of the general public to restore reserves and to relieve the banks of the danger caused by the paucity of their cash on hand.

The diminution of the reserves of business houses must take place at the same time with a diminution of bank reserves—that is, loans are wanted when banks are least able to respond. The demand always comes when the supply is lowest. The mode by which this dilemma may be avoided is by the creation of money to serve for the temporary emergency.

The bank has no money to lend, its cash being reduced to the lowest percentage of required reserves; but the borrower has good security and needs money.

RELIEF THROUGH INCORPORATED CLEARING HOUSES.

It is in this juncture that the measure proposed in bill 9279 would bring relief. Under the restrictive system the borrower would have to go without, and he would sacrifice just so much of his property as was necessary to maintain his solvency. In an active business this frequently causes a final liquidation, which is commercial death. But with a system of incorporated clearing houses, such as is proposed in bill 9279, such a contingency could not occur. Banks could always get advances to enable them to pay depositors and to lend customers all the money needed for legitimate purposes.

Clearing houses incorporated under a Federal law, as proposed in this bill, would be authorized to receive bank assets from their bank members, and advance 75 per cent of their estimated value in notes created for the purpose, whose credit could not be questioned from Maine to Alaska, because the notes are receivable at any clearing house in the land, and there is a trustee to act for the note holder who has in his possession ample collateral security, and whose faithfulness to his trust can not be questioned. That trustee is the clearing house. This is not an inflation, or the creation of capital, for that existed before in the security, but it is a change of its form into a circulating medium, on the assumption that when the round is performed by the circulating notes the borrower will have disposed of enough property in the ordinary course of his business to secure the cash needed to retire the notes. This is a most beneficent operation from every point of view, as it benefits everyone concerned therein and is done with entire safety to all. The proof of its goodness is that it may be done to any extent which legitimate business demands.

IDEA SUGGESTED BY CLEARING-HOUSE CERTIFICATES.

The idea of this form of currency was suggested by clearing-house certificates, with which the public has become familiar in recent years. The methods which have been so successful in producing absolute safety in these certificates have been applied to the proposed currency. The object aimed at was to produce as strong a currency as the banks could make so that it could not fail to be good in any panic.

If the unsecured notes of 3,000 banks are good as said in the report of your subcommittee, these secured notes of 45 State clearing houses would be immeasurably better.

DIFFERENCE BETWEEN CLEARING-HOUSE CURRENCY AND CERTIFICATES.

The great difference between clearing-house currency and clearing-house certificates is that in one case the currency is paid out and the reserves are kept intact, while in the other the precious reserves are paid out and the certificates held in their place. This latter act is an infraction of the law as to reserves which the country winks at. Clearing-house certificates can not be used to any extent outside of the great centers, and they are a dangerous resource at all times, while clearing-house currency could be used everywhere and at all times with safety.

Clearing-house currency is therefore a source of strength to banks, while clearing-house certificates are an evidence of weakness.

Another difference is that clearing-house currency would forestall and prevent a panic, while certificates are issued after a panic has taken place. One is preventive, the other is remedial. The old saying is very true that an ounce of prevention is worth a pound of cure.

Clearing-house currency, therefore, is not an experiment, for the limited and extra-legal form of clearing-house certificates has many times brought safe and certain relief to banks in reserve cities. Should not that be legalized which has been well done extra legally and should not the benefit of the relief be given to all the country which has hitherto been enjoyed by only a part?

WITHDRAWAL OF BANKING FACILITIES CAUSES PANIC.

Times of apprehension such as we have just been considering come when any great emergency presents itself. If borrowers can get all the money they want, there is no panic, but our banking reserves under the national-bank act are so small that a general loss of 5 per cent of deposits precipitates a panic. This has brought our banking system into what may properly be called a chronic panic.

During the past fourteen years we have had a succession of panics, each one caused by a special difficulty, but they all have their explanation in the one fact that our banking system has no provision within itself for self-protection. In 1884 the failure of the Metropolitan Bank was said to have caused a panic. Not so. The panic was caused by the fact that banks under our system could only protect themselves at the expense of the public. The withdrawing of banking facilities when most needed was the cause of the panic. That was true also in 1893, when the silver scare took place, as is so strongly and truly stated in Mr. Parson's letter, and in 1895, when the Venezuela message was issued. These were occasions which revealed the weakness of our system. The irritating causes come in many different ways, but the defect in the system is always the same.

What will be the effect of a declaration of war with Spain? We can not tell, but this we know, that under our system a general withdrawal for hoarding purposes of 5 per cent of banking deposits all over the country would leave the banks unable to discount or to sustain credit, or to prevent a panic. We are under the shadow of that danger all the time.

THE REMEDY IS SIMPLE.

We can talk about it freely because the remedy is so simple. All that is needed is to incorporate our clearing houses under a Federal law, and give to at least one in each State the power to receive from its bank members bank assets, and issue thereon at 75 per cent of their ascertained value circulating notes, good at any clearing house in the land. Then all danger of panic is removed.

France with her 38,500,000 inhabitants has a reserve in the Bank of France of \$600,000,000, in addition to reserves held by other French banks. Germany has given to a few of her banks a reserve power to issue currency without limit, which is practically a reserve of 100 per cent of banking obligations. These enormous reserves preserve those countries free from panic. We are on the verge of war with Spain, and our national banks hold less than 20 per cent of their obligations in lawful money, and the percentage of all banks, national, State, and private, is still less.

AMPLE AVAILABLE RESERVE REQUIRED.

This is totally inadequate to protect and support commercial and banking credit in the United States, as we know by our numerous panics in late years. An ample available reserve in the form of a legal power to issue a bank currency of undoubted credit, secured by collateral in the hands of trustees, to the par of the capital of the commercial banks of the country, which would be from \$600,000,000 to \$1,000,000,000, is needed to place our banking system on a sure foundation.

This is the one war measure which transcends in importance all other preparations for the national defense, because it protects and sustains commercial and banking credit and with it the welfare of every man, woman, and child in our country.

TWO BANKING SYSTEMS.

You have before you the two banking systems. One is the competitive, restrictive, liquidating, panic-producing system, which has resulted year after year in spasms of apprehension which too often have produced commercial death to our business men. The other is the cooperative, protective, sustaining system of an ample, available banking reserve, which produces stability and will protect us from panics.

The banking system of France was adopted in the stress of the revolution of 1848, and for fifty years it has maintained an unbroken record for solvency and strength. It was a war measure and strength to resist assaults upon credit was the chief object. An emergency is needed to show us in the United States what is required to make our banking system equally strong with that of France. An earthen embankment is the simplest thing in nature, but it makes a fortress which no cannonading can throw down. So an ample, available reserve is the simplest thing in banking and the easiest to construct by law, but it gives to a banking system a solidity and stability which no panic can overthrow.

TWO BANKING BILLS.

Gentlemen, you have before you two bills, representing the two systems of banking. Will you advocate that which is chiefly for the benefit of the banks, or that which will benefit all the people of our

land? Will you join the theorists who have an untried scheme they wish to experiment with, or will you act as patriots, and in the light of experience advocate a law which shall protect the commercial and banking credit of the United States against internal dangers and so make the nation able to meet and overcome all foreign foes?

During the reading of the foregoing paper, the following took place:

Mr. COX. When you speak of 1,070,000 people engaged in business, do you include the farmers of the country?

Mr. GILMAN. No, sir.

The CHAIRMAN. You spoke of different panics. Can not you give us the dates of those different panics?

Mr. GILMAN. Yes, sir.

Mr. FOWLER. In regard to the Metropolitan Bank, is it not a fact that they had the arrangements all made for carrying over that bank by taking its assets, and that there was only one man that prevented it? In your judgment, if that had been done, would we have had that panic?

Mr. GILMAN. I would have to refresh my memory—

Mr. FOWLER. That is the fact, Mr. Gilman, that one man prevented their taking—

The CHAIRMAN. Who was the man?

Mr. GILMAN. I think the panic was on us at that time. It was caused by the operations of the bank as well as by its failure.

Mr. FOWLER. These men were together, and one of the men refused to take these assets; they had to carry the bank through. Now, if they had done that—I have been told that by one of the men that was on the committee—do you think we would have had that panic?

Mr. GILMAN. The occasion would have been removed.

Mr. FOWLER. Your statement in that respect, in view of the facts in the case, would hardly be correct, would it?

Mr. GILMAN. I think it corresponds exactly with my statement. The difficulty was in the banking system and not in the occasion. Every time a panic takes place it is a revelation of the defect in the system, and that may arise from a number of causes.

Mr. FOWLER. This was a revelation of the speculation of the president, that caused the withdrawal of banking facilities.

The CHAIRMAN. Do you mean to say the banking conditions are a fruitful source, or rather the soil in which that seed was planted?

Mr. GILMAN. Yes, sir; that is what I have said. That was true also in 1893, when the silver scare took place.

(Mr. Gilman completed the reading of his paper.)

The CHAIRMAN. There are a few questions that I would like to ask. How would you constitute the capital of this clearing house?

Mr. GILMAN. The clearing houses do not require any capital. They have a financial responsibility equal to all the capital and surplus of all their members.

The CHAIRMAN. They would be made up of the banks—the banking?

Mr. SPALDING. No, the assets.

The CHAIRMAN (continuing). Would constitute the capital, and then you would allow them to use currency instead of the bank. Then currency would freely issue and they would loan this currency to the banks or simply furnish it to them?

Mr. GILMAN. Each clearing house would have the power under this bill to fix the rates of interest which the borrowing bank should pay.

The profit on the loans would be for the benefit of all the members of the clearing house.

The CHAIRMAN. After one or two questions, I suppose Mr. McCleary would have the right to ask questions, and I will yield the floor to him now.

Mr. HILL. I would like to ask a question as to the understanding of a single point. Do you propose to substitute clearing-house currency for further issues of bank currency in case of necessity?

Mr. GILMAN. In case of necessity.

Mr. HILL. What provision do you make for the redemption of your clearing-house currency? It is a demand note issued in small amounts or large amounts as the clearing house sees fit. In other words, it is a direct substitute with all the qualifications and all the provisions that the bank note has?

Mr. GILMAN. Yes, sir.

Mr. HILL. What provision do you propose to substitute for redemption—

Mr. GILMAN. The redemption is made by the bank as it would pay a check. It is not a substitute for redemption, it is the most direct and summary form of redemption.

Mr. HILL. I understand it is now payable back to the bank which issues it, and it returns it with the certificate issued to it. On the other hand, the bank could not present it to the clearing house of issue and have it paid. It must come back through the source in which it went out. You propose to issue it to a third party and they can present it direct for payment?

Mr. GILMAN. Yes, sir.

Mr. HILL. Now, what provision is made for the general clearing houses redeeming them? They have no cash on hand and never have had.

Mr. GILMAN. A clearing house is a place where the solvency of banks, corporations, firms, and individuals is brought to a daily test. This is done by offsetting debits and credits and paying debit balances in cash. No surer method of redeeming bank notes can be found than to require their payment through clearing houses. These notes are receivable at any clearing house in settlement of balances, and would be received by any bank in payment of any debt or liability to it. They are like bank checks. They are forwarded by the banks for collection to the banking associations, from one to another, just as they send checks for collection now, and in that way the amount is kept down to the lowest point of needs of the business community. But, on the other hand, if the bank that has made a loan wishes to take up that loan, it can deposit any form of legal-tender or clearing-house notes, no matter by whom issued—

Mr. HILL. But in the interim, while they do not wish to take it up, it is still redeemable at the clearing house.

Mr. GILMAN. Yes, sir; it must be received at the clearing house and redeemed by the bank.

Mr. HILL. It is only redeemed by the bank—

Mr. GILMAN. As well as by the clearing house.

Mr. HILL. Exactly; that is what I supposed. But what provision has the clearing house to redeem it, with no money on hand?

Mr. GILMAN. The same as any check. Checks are paid at all clearing houses to the amount of \$50,000,000,000 per annum. The collection would give the banks no trouble, because they would simply forward

After the Revolution the process began of changing our laws and customs to bring them into harmony with the principles of the Declaration of Independence. Our banking system was based on the English model, and all the banks of the United States were, like the Bank of England, organized under special charters.

The Bank of the United States was the most conspicuous example of this system, and General Jackson overthrew it "to preserve the morals of the people and the purity of the elective franchise." The free or general banking law of the State of New York was then enacted, April 18, 1838, and was called a second declaration of independence. Banking in the United States on republican principles dates from that time. Its two features were a general law and a secured currency. Those principles have been maintained until the present time, and are now the basis of the Federal bank act. Bill H. R. 9279 does not depart from these principles, and the only changes it proposes are to substitute the clearing house, incorporated under Federal law, in place of an officer of the Government as trustee for the public to hold the collateral to the circulating notes, and bank assets as the security instead of Government bonds.

I would like to emphasize the point that the interests of the people are separate from and antagonistic to the interests of the banks under a banking system with an unsecured currency and a reserve of a certain percentage of obligations, provided there is no means of increasing reserves except by compelling liquidations by the borrowing public.

Out of many authorities on the subject I will read from S. Hooper's book entitled *Currency and Money*.

The CHAIRMAN. Samuel Hooper, of Boston?

Mr. GILMAN. Yes, sir; he writes as "a merchant of Boston" and once was a Member of the House of Representatives. He says:

Whenever the demand for specie has become so urgent that it is difficult to meet it, the banks that have issued the paper money become alarmed for their ability to pay specie. Then commences the remedy for the depreciation of such a currency. When the demand for specie has become so intense or the quantity of it so much diminished as to alarm the banks, the remedy commences. It is a sure though a sharp remedy. It is brought into operation by stopping all discounts at the banks and requiring the payment of all previous loans as they fall due. Traders and merchants are forced at such times to make great efforts to obtain money to pay back their loans to the banks. To do this they must sell property at low prices or borrow money at exorbitant rates. This is the only process by which to remedy the depreciation of a mixed currency consisting partly of paper money redeemable on demand in specie. It is a process which invigorates the currency at the expense of the industry and the enterprise of the country.

And hear what Hon. Nathan Appleton, of Boston, said, as quoted by Mr. Hooper:

But these alternations of bank expansions and nominal prosperity followed by bank contraction, disappointments, and perhaps failures, are very much to be deprecated. The banks, to be sure, have no difficulty in these cases if well managed; the whole pressure is thrown on the mercantile community.

The CHAIRMAN. The whole pressure of what?

Mr. GILMAN. Of a bank crisis; of a panic. The banks do not suffer; the whole pressure of the panic is thrown on the mercantile community. Mr. Hooper continues:

If paper money is ever useful to a country it can only be in great emergencies and it should be reserved as a resource to supply the means for the defense of the country when other resources are exhausted. At such a time it may be used for the business transactions within the country to relieve the coin from that service so that it may be used by the Government in the exigency for the common welfare.

Now, that is exactly what I said, and I did not know that Mr. Hooper had said it.

No blame should be imputed to the banks or to their directors for the inconvenience and distress caused by forced liquidation. They have consulted only the interests of the banks. In doing so they were true to the system.

Mr. FOWLER. Read that again.

Mr. GILMAN (reading). "In doing so they were true to the system." That is, when they carry out the system according to its legal provisions.

Mr. FOWLER. It means more than that. It means they were true to the principle of banking.

Mr. GILMAN. If you will allow me to finish this I think you will see he refers to the system of banking then prevailing.

Mr. FOWLER. I know; but he refers not to the system of banking in any given time in the world's history, but to every relation which banking bears to commerce.

Mr. GILMAN. No, sir; he refers to banking under this particular peculiar system.

Mr. FOWLER. What system?

Mr. GILMAN. This system of a large number of banks issuing currency and holding the security themselves, which creates lack of confidence.

The CHAIRMAN. Each independent bank?

Mr. GILMAN. Each holding security in its possession and issuing its own notes. When a lack of confidence strikes the country, and these notes are sent home and the banks will not take them from their customers, and some banks fail and banking facilities are withdrawn, and their customers are compelled to liquidate and forced to sell out at great loss, then the panic which results from this state of affairs is due to the system—

The CHAIRMAN. You mean due to the system that protects them?

Mr. GILMAN. I am just quoting his words—

The interest of the bank is at variance with the public interest. The customers of the bank sustain the loss while the banks have had the profit—

The CHAIRMAN. Who says that?

Mr. GILMAN. That is what Hooper says. Then he goes on—

The CHAIRMAN. Let us have that.

Mr. GILMAN. And says that he advocates as a first step to reform—

That all banking should be under a general banking law, and secondly, that banks should be required to place security for their currency in the hands of a trustee.

These are the two points behind the national banking law—

Mr. FOWLER. I beg your pardon; you are mistaken. All the banks of the South and those following the New York guarantee system, where they put up the securities themselves, put up State securities and every kind of security, and the result was that they broke down completely. They absolutely destroyed the banks, and right by the side of it and succeeding it the system of issuing notes by the banks of the South went on, and through all these crises stood and sustained themselves and did not fail.

The CHAIRMAN. That is a matter which is absolutely incontrovertible. All statistics prove that fact.

Mr. NEWLANDS. Then Hooper is wrong.

Mr. FOWLER. If you will allow me, the possible defense of the proposition is this, the distinction is this, rather, that what you propose to put up is current liquidated wealth; that is the only defense you have

and that is your defense. In your case they put up the current liquidated wealth of the country, while under the system of New York and the one he refers to they put up the time obligations of the State, mercantile, etc.; and there are a great many men in the country to-day who, if they exhausted our Government bonds, would put up railroad bonds, school bonds, and every other sort of thing, and the whole thing has been accepted historically in every part of the world, and more particularly in this part of the country.

Mr. GILMAN. There have never been any losses on the clearing-house certificates; never have been, and never can be.

There have never been any losses on national-bank notes secured by Government bonds, and never can be. These are the two most recent instances of bank currency secured by assets in the hands of a trustee. The losses referred to by Mr. Fowler were due to defective security and not to the principle of a trustee or secured currency. Many railroad bonds have become worthless, but no one advocates on that account to abandon the idea of having a trustee under the mortgage. A trusteeship is a necessity where the ownership of the obligations is participated in by many different persons. The Georgia law of 1838, if I remember correctly, allowed slaves to be used as collateral to bank notes. The limitation to specific classes of collateral is wrong in principle. The banks should be allowed to pledge their assets and the trustee—that is, the clearing house or their loan committee acting for them—should determine as to the sufficiency of the collateral. Experience shows that by this method, on account of their contingent liability, the clearing houses will exercise great prudence to protect themselves from loss, and in so doing they protect the public also.

The CHAIRMAN. Let me ask you a few questions. How would the capital of the clearing houses be furnished?

Mr. GILMAN. The clearing house is only the representative of the associated banks. There is no separate capital, but a clearing house has the responsibility of all the capital of its bank members. Clearing houses are trustees in this bill.

The CHAIRMAN. Trustees of nothing?

Mr. GILMAN. To hold absolute security—

The CHAIRMAN. That brings us right to the point. What is the absolute security they are to hold?

Mr. GILMAN. They are to hold such assets as the banks offer them, and which the loaning committee approve as good.

The CHAIRMAN. Just give us a list of the assets.

Mr. GILMAN. The list of the assets would be commercial assets, promissory notes, bills of exchange, convertible bonds and stocks, and other securities and evidences of debt. These assets are to be received as collateral security for the circulating notes of the said association.

Mr. SPALDING. To the extent of 75 per cent?

Mr. GILMAN. The notes are to be issued at 75 per cent of the appraised value of the assets.

The CHAIRMAN. Now, the idea of Mr. Appleton and Mr. Hooper—both of whom I knew, and I have talked over these financial matters with them—in what you have quoted, went to the point of the coin redemption of currency notes issued by banks. Now, what provision do you make for maintaining the parity between paper money and coin, and how? Their point was that that should be maintained with more certainty and without injury to the public. What is your scheme?

Mr. GILMAN. Bill H. R. 9279 provides that security which is convertible, and which is approved as good security, is deposited with the clearing house as collateral for the loan of its circulating notes; and

the collateral security provides for the ultimate payment of these outstanding notes, the notes being issued at 75 per cent on securities supposed to be worth par, 100 cents. The coin value of those securities being 100 per cent, notes to the extent of 75 per cent of the value are issued on them, and that is like lending 75 per cent of the coin value.

The CHAIRMAN. That we have understood—that is all clear—but that does not meet the point at all. How is the clearing house to get the coin to redeem the notes?

Mr. GILMAN. A clearing house is a place for the mutual set-off of debits and credits. If the coin is not provided to pay the notes by the banks whose obligations they are upon the day of demand, the loan committee of the clearing house must sell those assets to provide the money to take up those notes, and they have a margin of 25 per cent to protect them, and if that margin is not sufficient, then any loss is to be assessed upon the members of the clearing house.

Mr. FOWLER. If exceeding—

Mr. GILMAN. The securities.

Mr. FOWLER. Not only that, but they still have a claim against the bank?

Mr. GILMAN. Yes.

The CHAIRMAN. Is your answer, then, that the coin to redeem these notes and all responsibility for their redemption is to be universal, as it was under the Suffolk system in New England, on the banks, and the clearing house is to be absolved from that?

Mr. GILMAN. The clearing house represents all its bank members. The bank borrowing money of the clearing house is the first guarantor, and if a loss occurs on a loan it is assessed on the other members.

I do not think the Suffolk system is parallel. The Suffolk Bank was the redeeming agent for banks of New England, each providing its own redemption fund. I do not think there was any mutual responsibility under that system. The Suffolk Bank system does not provide a currency which circulates in the community, but one which gravitates in a straight line for the redemption bank. It is a question whether it does not make money scarce in the country and plenty in financial centers.

The CHAIRMAN. I mean, absolved from that obligation?

Mr. GILMAN. No, sir. The clearing house is acting simply as trustee for the public to hold these securities, and if the debt is not paid on demand the loan committee then administers those securities and they provide the money by their sale. If there is a loss which the borrowing bank can not pay, it is assessed on the other members of the clearing house.

The CHAIRMAN. When you say a "debt," you mean when the currency is presented and it is not redeemed they have to sell these securities?

Mr. GILMAN. When any of the currency which has been issued to the bank is not paid upon demand by that bank, that makes the loan immediately due, and the clearing house, as trustee, would immediately proceed to market those securities and close out the loan, and would have then a claim against the bank for any deficiency, and if the bank was insolvent the deficiency would be assessed upon—

The CHAIRMAN. What do you mean by closing out these securities?

Mr. GILMAN. Selling them for coin or legal tender.

The CHAIRMAN. You mean to say the clearing house would sell those securities to-day for gold and redeem these currency notes that they have issued and loaned to the bank in the gold that they got from the sale of these securities?

Mr. GILMAN. Yes, sir; in the gold or other legal tender.

Mr. PRINCE. Now, to make it plain to me, suppose I have a \$20 bill issued by the First National Bank, say, of Galesburg, Ill., under your proposed bill. I present that \$20 bill to the bank and it refuses to pay. I ask for the gold and they refuse to pay it. Do I understand you to say that thereupon the clearing-house association proceeds to dispose of the assets or securities placed in the hands of the trustees in the clearing-house association, and that those securities are converted into coin, and out of that fund or coin I am to be paid the \$20?

Mr. GILMAN. No, sir; the banks wait for the liquidation, not the public.

Mr. PRINCE. How long am I to wait? Say I am a poor man, and present my \$20 as a result of my month's work; say I bring that to the bank, which refuses to pay me, and I want to pay my rent, and if I do not, I will be put out of my house the next day; how am I to get my money?

Mr. GILMAN. Under this law the banks guarantee the payment of that money. All you have to do to get your \$20 is to deposit the \$20 to your credit, or get some friend to do it if you have not a bank account, and get the money. Then the whole process of presenting that note is handed over to your bank and they relieve the business community of the whole matter, and that note would be deposited in the clearing house in payment of the obligations of the bank to the clearing house, and whoever had that note and wanted to collect it would send it to the bank and demand payment; so that the whole thing is taken out of your hands, and you do not have to go to the issuing bank to get your money, but you simply put it in your bank and get the money.

Mr. PRINCE. But I have no bank account and I go to the bank which has issued this \$20. I have worked for this money, and I go to the First National Bank, if you please, of the city of Galesburg, which has promised itself to pay this \$20, and the clearing house has promised that this bank will pay it. It is issued through the clearing house by this First National Bank of Galesburg under your bill. I present the bill to that bank and that bank refuses to pay the bill. It is insolvent; it has collapsed and gone. Shall I wait around the corner somewhere until something is done?

Mr. GILMAN. Say you went to the bank and found a notice on the door, "This bank is closed and in the hands of a receiver." Your note would be guaranteed by the remaining banks of the clearing house and its goodness would be unquestioned and no one would think of refusing to take it at par.

Mr. PRINCE. Is it legal tender?

Mr. GILMAN. It is not legal tender.

Mr. PRINCE. But suppose the man refuses to take it; suppose a man does not want to take it?

Mr. GILMAN. Then you could put it in another bank. It is supposed that anybody who has a small bill to pay can find a friend who has a bank account himself and get him to deposit that, and the bank assumes the collection of the note and the \$20 is put to his credit and he can draw it out and give you the gold immediately on the day he put it in the bank; any holder could get the gold or the legal tenders for the bill of that broken bank immediately, in spite of the failure. The banks would attend to the whole matter.

Mr. PRINCE. Let me get it a little plainer.

Mr. SPALDING. Put the reverse of the proposition—how would you collect your bill?

Mr. PRINCE. I can explain that later on when the times comes. I

have this bill of \$20, and I owe Mr. Fowler rent for the house in which I live. He has sued upon that for forcible entry and detainer to get me out. He wants me out, and if I tender him the \$20 I owe him, which is the amount of rent and all costs up to date, say it just covers \$20, I take \$20 of that kind of money issued through the clearing house to this bank and the bank does not pay me. I stop by Mr. Fowler and I say, "Here it is," and he says, "It is not legal tender, and if not legal tender I will not accept it." And I tender it to the court and the court refuses to accept it.

I then look around, and I have no bank account, and I have no friends; I am without a friend on earth, and I have a family, and I am liable to be turned out of my home. What shall I do? Where shall I go to get the money to pay Mr. Fowler, who will not take the bill I have?

Mr. GILMAN. You can go to any bank, even if you were not known to the bank. If there was any bank in the district, say 10 miles off, you could go to that bank and get your money. The profit to the banks on the currency would lead them to take care of its credit.

The CHAIRMAN. What is the provision of law in regard to that?

Mr. GILMAN. This law provides that these notes are good at the clearing house, and consequently any bank that has those notes can pay them to the clearing house in satisfaction of any debt against them, and that makes them current all over the country.

Mr. FOWLER. Will they take them without discount?

Mr. GILMAN. Without discount.

Mr. FOWLER. Take Mr. Prince's case. Suppose he went to a bank next door, and said: the First National Bank is closed which issued this note for \$20; at what rate of discount, if any, would they take this \$20 bill?

Mr. GILMAN. They are obliged to take it at par. They can afford to pay par because it is good in the clearing house.

Mr. FOWLER. They are not compelled to take it?

Mr. GILMAN. Section 13, line 8, of the bill 9279 provides that the circulating notes "shall be received at par at all the clearing houses in the United States organized under this act," and in section 12, line 17, it provides that "payment is guaranteed by the associated banks of the United States through any clearing house." I suppose no other party can be compelled to take a note that is not legal tender.

Mr. FOWLER. Oh, yes, they can; national bank notes are not legal tenders, and banks are compelled to take those.

Mr. GILMAN. National banks are not compelled to give legal tenders or gold for national bank notes issued by other national banks. Mr. Prince would be in the same fix with his \$20 national bank note as if it were clearing-house currency. A national bank is only compelled to take it "for any debt or liability to it." So his landlord could refuse to accept a national bank note, and national banks could refuse to give him gold or legal tender for it, and he would have to call in a friend, just as I have suggested. As a matter of fact, national bank notes and clearing-house currency would both circulate without question. It is provided that these notes shall be received at any clearing house, and that makes them at par.

Mr. FOWLER. How are you going to get them there? Who is going to get them there? Suppose the man was miles away from the clearing house.

Mr. PRINCE. Suppose the clearing house was in Chicago and I am here.

Mr. GILMAN. Competition in business is so active that no difficulty is

ever experienced in cashing absolutely good currency. The great object is to make the notes of undoubted goodness and then to make them receivable by all banks, at all clearing houses over the land, for all debts due to banks. These guarantees would make the notes pass from hand to hand without difficulty. If a bank has an accumulation of these notes on hand they would immediately send them to the issuer—to the bank.

Mr. FOWLER. Suppose they receive this \$20 of Mr. Prince and they did not know what their assets were worth over there, and he says he will not give but \$15, what protection has Mr. Prince got?

Mr. GILMAN. The failure of the bank makes no difference in the goodness of the note. It is guaranteed by all banks. By this process of compelling the banks to accept these notes in payment of their credits at the clearing house it throws upon the banks the burden of collection. That is the point.

Mr. FOWLER. Do you not know that a bank always takes advantage of every piece of paper put to them? They will say, "I do not know anything about this thing." The cashier will say he will not take this because he does not know about it or he will not give more than \$15 for it.

Mr. PRINCE. And I owe you \$20.

Mr. FOWLER. Would he not be unfortunate in that position? That is the point, I understand.

Mr. NEWLANDS. That could be entirely met by making it legal tender to the banks.

Mr. GILMAN. That is accomplished by compelling the banks to accept these through the clearing house.

The CHAIRMAN. Where does the bill compel them to accept directly? What is the provision?

Mr. GILMAN. I read from the bill.

The CHAIRMAN. What is the section?

Mr. GILMAN. Section 9; if you will, please turn to section 9.

Mr. NEWLANDS. What bill is this?

Mr. GILMAN. This is H. R. 9279. The seventh line on the ninth page:

The bank member taking said circulating notes shall engage to redeem them at all times when called upon to do so by the clearing house issuing the notes and to give any additional collateral needed to restore any depreciation, etc.

Now, look at section 10.

That each bank member taking such circulating notes—

The CHAIRMAN. You want to talk right on this point. In line 7, page 9, it says this:

The bank member—

That is, the bank member of the clearing house, I suppose—

Taking said circulating notes shall engage to redeem at all times when called upon to do so by the clearing house issuing the notes.

Now, there is nothing giving a person any right to call for the redemption of those notes at the bank except the clearing house which issues them.

Mr. PRINCE. I suggest this, that the bank member shall be required to redeem at all times said circulating notes when called upon so to do.

Mr. FOWLER. Then you make each bank redeem the notes of all banks. How are you going to fix it then?

Mr. PRINCE. The bank I ask to pay the note refuses to pay it. Then I go, as Mr. Fowler says, next door and it refuses to take it without a

discount. Have you any provision in this bill that, say, the Second National Bank, which is in the building next door engaged in the banking business, will have to take my note at par? That is the point I want to get at and to clear up. This provision does not seem to me to require it.

Mr. GILMAN. Nor does the national-bank act contain that requirement in that form. The demand is made by the clearing house, because the notes would actually come into the hands of the clearing house. I can see that your suggestion would be an improvement to the bill and make it more clear on that point. This provision in reference to the clearing house covers the whole country, and any person in any city anywhere having a note can deposit it in the bank, and every bank in the clearing house is compelled to accept it in settlement of the claims due that bank. Thus, the collection of the note falls upon the person who receives it.

Mr. FOWLER. That would be the depositor?

Mr. GILMAN. The depositor puts it in his bank, which pays it to the clearing house, and by making the clearing house accept it in payment of balances with all the banks in the clearing house, that puts the notes at par.

Mr. NEWLANDS. As I understand your bill, every bank member is compelled to make redemption of its notes it takes from the clearing house, and you say that every other bank member would be willing to accept those other notes issued by another bank member because he could tender them to the clearing house in settlement of claims due the clearing house from him?

Mr. GILMAN. Yes, sir.

Mr. NEWLANDS. Now, that is the inducement, but there is nothing in your law which would compel the other bank member to take the notes of another bank and give par value for them. You simply say the inducement is that he can make use of those notes in settling the claims of the clearing house against him?

Mr. GILMAN. Yes, sir. The case would be exactly the same as now exists with national bank notes.

Mr. NEWLANDS. You are aware that under the national-bank act any holder of any national-bank notes issued by any bank can compel a bank other than the one issuing it to take that note in payment of the obligation due from him to the bank?

Mr. GILMAN. That ought to be included in this bill if it is not here. That point ought to be covered, as there is absolute security, and it is no hardship upon the banks to compel them to accept these notes from the public as well as through clearing houses. That provision is in the national-bank act, was in the old State bank laws, and is contained in the present German banking law of March, 1875.

The following sentence should be added at the end of section 13, page 14, line 14:

And every bank member of every clearing house organized under this act shall take and receive at par, for any debt or liability to it, any and all notes or bills issued by any clearing house of issue organized under this act.

I would also add immediately after the above the following paragraph:

The meeting together of any persons who are officers, agents, or employees of persons, firms, or corporations in any one or more places once in thirty days or oftener for the purpose of exchanging, paying, or in any other way satisfying any obliga-

tions used in commerce among the several States by any two or more of such persons, firms, or corporations, or for the purpose of the settlement of money transactions by the mutual set-off of debits and credits, commonly called "making clearances" for banks shall constitute such persons, firms, or corporations represented in such meeting a clearing-house association for the purpose of the taxation herein imposed, and such persons, firms, or corporations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a duty in amount equal to one-fiftieth of one per centum on the aggregate amount of all such obligations exchanged, paid, or in any way satisfied, or on the aggregate amount of the money transactions settled by the mutual set off of debits and credits, at each and every meeting of persons acting for such persons, firms, or corporations: *Provided, however*, That in case any such clearing-house association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted: *And provided further*, That the tax herein imposed on clearing-house associations herein described shall be wholly remitted to all members of clearing houses that are incorporated under this act.

I would also add in section 9, page 9, line 8, to make it read as follows, beginning with line 7:

The bank member taking said circulating notes shall engage to redeem them in the lawful money of the United States at all times upon demand of payment duly made during the usual hours of business at the office of such bank member and also when called upon to do so by the clearing house issuing the notes, etc.

Mr. NEWLANDS. Does your bill make any provision as to the kind of coin every bank shall keep on hand for the redemption of the circulating notes issued to it by the clearing house?

Mr. GILMAN. No, sir.

Mr. NEWLANDS. That is left to its own determination and discretion?

Mr. GILMAN. Yes, sir; because the present bank law has complete provisions as to reserves, and it is best to leave that law just as it is, and when the clearing-house currency is secured by gold values, and in addition to that, when you add 25 per cent of those values to its security, and also add the guarantee of all the banks in the country, a bank circulation of this description could take care of itself.

Mr. NEWLANDS. Would you expect the bank to keep any funds on hand for that purpose?

Mr. GILMAN. Not for the purpose of providing for notes in addition to its other coin reserve; no, sir.

Mr. NEWLANDS. What do you regard as a safe reserve for a bank to keep against the calls of its depositors?

Mr. GILMAN. I think that the percentages of reserves that should be kept by banks depend upon the system under which the bank is operated. Now the reserves under our national system are entirely inadequate, because there is no provision for self-preservation, and a diminution of those reserves about 6 per cent all over the country for hoarding purposes would cause a panic. But take the Credit Lyonnaise as an example. The Credit Lyonnaise is under the French system, and its advertisements may be seen in the New York papers and elsewhere giving a statement of its condition.

It is an immense bank and it has only about 10 per cent of its obligations on hand in cash. That is according to a calculation I once made. It has 10 per cent more in call loans, and then it has bills receivable which it advertises are "immediately discountable at the Bank of France" to the extent of 50 per cent of its obligations, and adding these reserves together you have 70 per cent of the obligations of the bank, which are under their immediate call, and that makes a strong and impregnable position. It is strong with only 10 per cent in gold on hand; but 10 per cent is sufficient under such a system.

Mr. FOWLER. Under the Credit Lyonnaise system?

Mr. GILMAN. Under the system prevailing in France where the Credit Lyonnaise has its head office.

The CHAIRMAN. That is to say, it is one of the branch banks——

Mr. GILMAN. No, sir; it is not.

Mr. NEWLANDS. He says, in effect, the Bank of France has branches?

Mr. GILMAN. The Bank of France supports the whole banking system of France with its reserve of \$600,000,000 in gold and silver——

Mr. NEWLANDS. As against what amount of deposits?

Mr. GILMAN. I should say that is about 60 per cent of its obligations. It is 85 per cent, I think, of their note circulation, and 60 per cent or 65 per cent of the entire obligations, including their deposits.

Mr. NEWLANDS. You say the amount of reserve depends upon the system; that under the national banking system of this country the reserves are inadequate. What reserves do you understand are kept as a rule by national banks in this country?

Mr. GILMAN. The reserves kept by the national banks vary in different parts of the country. There is a legal requirement of reserve to be held in lawful money. The country banks are required to hold 6 per cent of their deposits in lawful money in their vaults. Banks in reserve cities of the second class are required to reserve 12½ per cent, and banks in central reserve cities 25 per cent. The Western banks, the outlying banks, beyond the reach of our money centers, hold the largest amount of cash reserve. In Colorado, Nevada, California, and Oregon the percentage of reserve held to deposits, according to the Comptroller's report of October 6, 1896, was 29.2 per cent; the amount held above requirements was therefore 23.2 per cent.

In the Eastern States of Maine, New Hampshire, Vermont, Massachusetts, Rhode Island, and Connecticut the country banks held 10.7 per cent at that time, having a surplus of only 4.7 per cent above the legal requirements, and yet they held \$162,000,000 of deposits against \$43,000,000 of deposits of the four first-named States, and the other States of the Union are classified between those two extremes. The average of the surplus reserves of the total banks in the United States above the legal requirements were 6.6 per cent at the time named.

Mr. NEWLANDS. When you say that the reserves of the national banks are inadequate, do you mean the legal reserve or the actual reserves that they have?

Mr. GILMAN. I refer in this to the lawful money reserve.

Mr. SPALDING. Kept in the safe?

Mr. GILMAN. Kept in the safe.

Mr. NEWLANDS. Do you refer to the amount required by law, or the amount that they actually keep on hand, if the amount actually kept on hand is in excess of the legal requirement, as inadequate?

Mr. GILMAN. Both are inadequate.

Mr. NEWLANDS. I understand you to say a withdrawal of 6 per cent of the reserves of banks for hoarding——

The CHAIRMAN. Deposits, you mean?

Mr. GILMAN. Six per cent of deposits.

Mr. NEWLANDS (continuing). Would cause a panic?

Mr. GILMAN. I would rather put it in this way: It would put the banks in a position where they would not be able to discount or afford relief to the business community, and they would be obliged to stop discounting and to call in loans to repair their reserves.

Mr. NEWLANDS. About what are the total deposits in the banks of this country according to your understanding?

The CHAIRMAN. Those are all matters of statistics.

Mr. NEWLANDS. I know.

Mr. GILMAN. I should say, according to the report of the Comptroller of the Currency—

The CHAIRMAN. What date?

Mr. GILMAN. October 6, 1896. There are 8,208 commercial banks, including national, State, and private banks, which had deposits of \$2,553,000,000.

Mr. NEWLANDS. Those are national banks?

Mr. GILMAN. National, State, and private banks. There are loan and trust companies and savings banks in addition to that, making 9,456 as a total number of banks reporting, having at that time \$5,075,000,000 of deposits.

Mr. NEWLANDS. Now, leaving out of view savings banks and stating it in round numbers, it would be about \$4,000,000,000?

Mr. GILMAN. The commercial banks, which are the ones we ought to specially regard, have \$2,553,000,000 of deposits.

Mr. NEWLANDS. Then 6 per cent of that would be \$150,000,000, would it not?

Mr. GILMAN. One hundred and fifty million dollars.

Mr. NEWLANDS. A withdrawal of \$150,000,000 of deposits from the banks would create this condition approaching a panic?

Mr. GILMAN. Under the strain of distress, not under the ordinary operations of business. There is a distinction.

Mr. NEWLANDS. If they are withdrawn for the purpose of hoarding, do you not think a panic would be produced by the withdrawal—you make the distinction, I believe, between the withdrawal of deposits and redemption of the cash reserve of banks, do you not?

Mr. GILMAN. Yes. A closing of accounts may reduce deposits by what is equivalent to journal entries, without payment of cash.

Mr. NEWLANDS. How much would a reduction of \$150,000,000 in deposits indicate a reduction in the cash reserve of banks?

Mr. GILMAN. About 6 per cent of deposits, but 33 per cent of the total reserves.

Mr. NEWLANDS. If the deposits were reduced \$150,000,000 in all the banks of the country, what amount of coin reserves would that mean was withdrawn from the banks or lawful money reserves?

Mr. GILMAN. That would be determined by the nature of the withdrawal. If there were simple cross entries by which certain accounts were closed out on one side and certain other accounts were closed out on the other, it might not require any transfer of money particularly; but if that reduction was caused by the demand of interior banks to strengthen their reserves or a demand arising from merchants who desired to put away money in their safe-deposit vaults for the purpose of providing against any contingencies, it would be an entirely different matter, and 6 per cent of deposits withdrawn in this way would be sufficient to throw the whole system out of gear, for it would be equal to the withdrawal of one-third of the reserves.

Mr. SPALDING. New York went through something like that about two months ago.

Mr. NEWLANDS. Do you not think there ought to be some provision requiring a larger reserve to be kept by banks?

Mr. GILMAN. I think that is the great want of the country at the present time and that a reserve can be provided either by the power to issue a credit currency as in the case of the German banks, which does

not cost anything, it is nothing but the legal power, or it can be provided by the actual putting up the money. A reserve provided in either way affords ample protection to the credit system.

The CHAIRMAN. Can you furnish me, and if so, will you do so, the items of the assets and liabilities of the Bank of France anywhere within three or four months after the occupation of Paris by the Germans?

Mr. GILMAN. I will endeavor to do that.

[Subsequently Mr. Gilman furnished the following statement concerning the Bank of France.]

As requested, I now give you a statement of the assets and liabilities of the Bank of France under three dates, June 30, 1870, September 8, 1870, which was the last rendered under the Empire, and June 29, 1871, which was the first rendered under the Republic. Also to assist in understanding same, I give the valuable comments thereon of the (London) Economist in their issue of July 8, 1871.

THE REMARKABLE ACCOUNTS OF THE BANK OF FRANCE.

The accounts which the Bank of France has this week again for the first time since September begun to publish, are perhaps the most remarkable bank accounts which have appeared. They represent the effects of a greater destruction in the political elements of credit (taking the war and the civil commotion together) than have ever been known since banking became a trade, and that effect has been shown by the accounts of a bank much larger and stronger than any which has ever before been subjected to an equal or an analogous experience.

The most important fact is that after all the calamities which have happened, even now the Bank of France can not be said to stand at all badly, if we take due account of its peculiar position and circumstances. Of course the liabilities of a bank which has been required by its Government to suspend specie payments, and which pays its outgoings in its own inconvertible paper, are for the present only nominal; they would only become real if specie payments were resumed. But if specie payments were resumed and if the liabilities of the Bank of France in consequence became real, these are what they would be:

Notes and drafts in circulation.....	£89,985,000
Public deposits	5,631,000
Private deposits.....	22,246,000
Total	117,862,000.

and the reserve would be nearly £22,000,000, or very nearly one-fifth. And this is really a very large reserve for a country like France where banking is very little developed.

It is certainly a much larger proportionate reserve than exists in this country (England). The peculiar provision of Peel's act, which separates the banking from the currency reserve, makes a comparison with any other country always difficult, since no other country has any corresponding circulation. But if we take the banking liabilities of six joint-stock banks only, and remember that the reserves of notes and coin in the Bank of England is the only store of actual cash which

England possesses to meet the banking liabilities of these banks and others, we find:

Banking liabilities of the Bank of England and six London joint-stock banks December 31, 1870.

Bank of England:	
Public deposits	£8, 288, 000
Private deposits	20, 283, 000
Seven-day and other bills	750, 000
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London and Westminster Bank	27, 319, 000
London Joint Stock Bank	22, 869, 000
Union	17, 315, 000
London and County Bank	15, 413, 000
City Bank	16, 506, 000
Consolidated Bank	4, 274, 000
	<hr/>
	2, 496, 000
	<hr/>
	106, 192, 000

And the reserve of notes in the banking department is £12,574,000, or 12 per cent of the banking liabilities. Or if we include the bank-note circulation and make the Bank of England accounts up into the "old form," as it has now for so many years been called, the account is—

Liabilities, including circulation of Bank of England.

Bank of England, circulation and deposits	£51, 512, 000
London and Westminster Bank	22, 869, 000
London Joint Stock Bank	17, 315, 000
Union Bank	15, 413, 000
London and County Bank	16, 506, 000
City Bank	4, 274, 000
Consolidated Bank	2, 496, 000
	<hr/>
Total	130, 385, 000

and coin and bullion in both departments is £22,383,000, or 17 per cent of the entire liabilities, whether of banking or of circulation.

In both cases, when we include only six joint stock banks, we find that the ratio of the English reserve to the English liabilities is less than that of the French reserve to the French liability; and the liabilities of these six banks are only an infinitesimal small part of the liabilities of England. If we could give all the liabilities of the private banks—all the liabilities of the English country bankers, whether on deposits or circulation—and all those of Irish and Scotch bankers, we should have a most formidable total. Broadly speaking, the reserve in the Bank of England is the only reserve (except the cash in the till and the comparatively small sums kept in Scotland and Ireland in conformity with the act of 1845) which is held against it; but the French liabilities outside of the Bank of France are, in comparison, very trifling, so that we are left with the great and strange result that after the invasion and after the civil war the credit system of France rests on a larger basis of cash and is supported by a far larger percentage of reserve to liabilities than our English credit system, though the latter is in its ordinary state and has not been tested by either invasion or internal convulsion.

The principal reason of the remarkable present strength of the Bank of France is its unparalleled strength last year. At that time its liabilities were—

Notes and drafts	£59, 588, 000
Public deposits	7, 031, 000
Private deposits	17, 864, 000
	<hr/>
	84, 483, 000

and its bullion and specie nearly £52,000,000, or 62 per cent of its liabilities. Probably never since banking has become a trade, at least has taken its modern form of a receipt of deposits and an issue of promissory paper, has any bank held so large a proportion of cash reserve to its current liabilities as the Bank of France last year held. Most fortunately these strange and unprecedented political calamities attacked the bank at a period of exceptional strength, and therefore it has been able to surmount them so easily and to stand so well at last.

The next most remarkable point—indeed, in one sense the most remarkable of all, for it is quite new and has never been stated before—is that the advances to the trading community of France have diminished. In September, in the last account which was published till now, the discounts had risen to £64,000,000, while they are now £36,317,000, showing a reduction of nearly half since September. Nothing can speak more conclusively for the substantial soundness, both of the business of the Bank of France and of French commerce in general, than that it should have been possible for the bank to obtain and for the community to make this immense repayment.

The immense augmentation in the paper circulation was obvious, was known before the publication of the accounts, and has therefore been much discussed. There is an important point on which it is desirable that opinions should be clear.

As yet the issue of bank notes by the Bank of France during the invasion has been like the issue of bank notes by the Bank of England in a panic and after the suspension of Peel's act. In such cases with us a great auxiliary circulation of checks is on a sudden rendered less efficient than usual and requires at the same moment a greater support of bank notes or coin than usual. Consequently at that moment of fear an issue of bank notes can occur without depreciation. Just so in France. The metallic circulation has lately been largely hoarded, and therefore the paper circulation is needed to take its place, and has taken it without being depreciated. But soon these hoarded sums of metallic money will come forth—some are now being sent forth on account of the loan—and it is not very easy to see how, if the metallic money comes out, the paper money can remain as large as it is without falling considerably in value.

The enormous augmentation of the loan by the Bank of France to the French Government was a necessity in their position. They obtained the means to make it partly by diminishing their bullion, but mainly by an augmentation of paper currency which they could not have obtained without the leave of the Government. And as the Government gave that leave they were right to obtain the principal benefit from it.

The Bank of France is an institution entirely opposed to all English ideas. The governor and deputy governor are appointed by the State, and they are, in fact, supreme in the bank. And the intervention of the executive Government in banking is opposed to established opinion and to sound political economy. But this much, at least, may be said: If the State in any country begins to foster banking it should do so in such a manner as to have a perfect control over the banking which it fosters.

The French Government did not, like the Government of India with the old Bombay Bank, give the credit of its sanction to a bank over which it had no control. It took absolute authority over the bank, and by means of a council of skilled regents it is enabled to exercise this authority fairly. This may not be as good a system in which deposit banking, at any rate, is open to all the world, but it is the next best substitute for it. And at the moment of this disastrous invasion it has

enabled the State and the bank to cooperate and to aid one another in a singular and felicitous manner.

Bank of France accounts.

	June 30, 1870.	Sept. 8, 1870.	June 29, 1871.
LIABILITIES.			
Capital.....	£7,300,000	£7,300,000	£7,300,000
Profits and reserve.....	1,320,000	1,826,000	1,834,000
Notes in circulation and drafts on provinces.....	59,588,000	73,183,000	89,985,000
Public deposits.....	7,031,000	7,151,000	5,621,000
Private deposits.....	17,864,000	18,820,000	22,246,000
Reserve for liquidation of three branches.....			1,040,000
Total.....	93,109,000	107,790,000	127,536,000
ASSETS.			
Cash and bullion.....	51,900,000	32,320,000	21,994,000
Private securities.....	30,815,000	64,250,000	21,482,000
Postponed bills.....			14,655,000
Government securities.....	10,142,000	10,142,000	9,732,000
Treasury obligations.....			47,720,000
Advances to city of Paris.....			8,400,000
Property of the bank, sundries, etc.....	751,000	1,078,000	3,334,000
Total.....	93,109,000	107,790,000	127,537,000

The CHAIRMAN. Can you give me, and will you do so, either a copy of or information as to where I can find the speech of Mr. Goschen in January, 1890 or 1891, concerning the financial condition of the Bank of England?

Mr. GILMAN. Yes, sir; Mr. Goschen's speech is discussed and quoted in a pamphlet written by S. F. Hopkinson, the Leeds proposal and the answer from London.

The CHAIRMAN. The securities, as you call them, that would be pledged by the bank to the clearing house for the currency that the clearing house furnishes the bank would be the ordinary securities or notes that it took in its regular way of business as a bank?

Mr. GILMAN. Yes, sir.

The CHAIRMAN. When a bank issues currency directly against its assets, as is done in France and Germany and was done under the old Suffolk system and under the old State bank system, it issues it against these very securities that under your system it issues?

Mr. GILMAN. Yes, sir; the only difference being that in one case there is the actual pledge of the assets in the hands of a trustee to secure the clearing-house currency, and there is no such pledge when the notes are issued against the assets in their own hands. In France the privilege of note issue is given to one bank, and in Germany to about six. To give the same privilege in our country to 3,000 banks would not follow their example, and would invite disaster. Currency was not issued under the Suffolk system; that was only a method of redemption.

The CHAIRMAN. Then the only difference is in the distinction and positive pledge of specific assets of a bank placed in the hands of the second party, rather than the whole assets of the banks remaining in the hands of the banks as against the notes it issues when the law gives a first lien on all the assets of the bank and its stockholders and the liability of the assessment of the stockholders as security for the currency?

Mr. GILMAN. Yes, sir; that is the difference, and the liability to a lack of confidence. I will say the confidence comes in just at that point.

This describes the method. The object is to make the banks sustain their customers as well as derive a profit from them. This they do by turning to the clearing house to find the remedy for a bank crisis, instead of throwing the whole pressure on the mercantile community, to use the words of Nathan Appleton. The result is that cooperation is thus established, which prevents the interests of the banks from being at variance with the interests of the people. A secured currency with a cooperative system will produce stability, and an unsecured currency, whether under the Suffolk system or any other, will produce panics.

Thereupon the committee adjourned.

H. R. 9725.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES,

APRIL 5, 1898.—*Mr. McCleary introduced the following bill, prepared by the Special Subcommittee of the Banking and Currency Committee, consisting of Hon. James T. McCleary, Hon. George W. Prince, and Hon. John Murray Mitchell; which bill was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To provide for strengthening the public credit, for the relief of the United States Treasury, and for the amendment of the laws relating to national banking associations.

Issue and redemption division established.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That there is hereby created a division in the Treasury Department to be known as the Division of Issue and Redemption, under the charge of an assistant treasurer of the United States, who shall be appointed by the President, by and with the advice and consent of the Senate.

Funds in division of issue and redemption.

SEC. 2. That to the division of issue and redemption shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes and certificates, and to the exchange of coins; and the said division of issue and redemption shall have the custody of the bank-note guaranty fund and of the redemption fund of the national banking associations, and shall conduct the operations of redeeming the circulating notes of national banking associations, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all silver dollars held against outstanding silver certificates, all United States notes held against outstanding currency certificates, and all silver dollars and silver bullion held against outstanding Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and such amount of subsidiary and minor coins as the Secretary of the Treasury shall consider necessary for the issue and exchange of such coins, and the funds deposited with the Treasurer for the redemption or retirement of the circulating notes of national banking associations. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the other divisions of the Treasury Department; and the accounts relating to the national banking associations shall be kept separate and apart from all other accounts in said division of issue and redemption.

Reserve against U. S. notes and silver.

SEC. 3. That a reserve shall be established in the division of issue and redemption aforesaid by the transfer to it by the Treasurer of the United States from the general

funds of the Treasury of an amount of gold, in coin and bullion, equal to twenty-five per centum of the amount, both of United States notes and Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, outstanding, and a further sum in gold equal to five per centum of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used solely for the redemption of said notes and in exchange for said notes and for silver dollars and subsidiary and minor coins, as hereinafter provided.

SEC. 4. That it shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption aforesaid at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for, and the preservation of public confidence; and for this purpose he may, from time to time, transfer to the division of issue and redemption any funds in the Treasury, not otherwise appropriated, in excess of a cash balance of fifty million dollars, said cash balance to be determined in the same manner in which it is now determined; and in addition thereto he is hereby authorized to issue and sell, whenever it is in his judgment necessary to the ends aforesaid, bonds of the United States bearing interest at a rate not exceeding three per centum per annum, payable in gold coin at the end of twenty years, but redeemable in gold coin at the option of the United States after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purpose aforesaid.

Duty of the Secretary of the Treasury to maintain such reserve.

SEC. 5. That the Secretary of the Treasury may, and he is hereby authorized to, exchange gold coin held in the general cash of the Treasury for notes held in the division of issue and redemption; and he is hereby further authorized to exchange notes of one denomination for a like amount in notes of another denomination, or notes of one of two classes for a like amount in notes of the other class, and may replace notes worn or unfit for circulation by new notes of the same class; but none of these exchanges shall at any time alter the amount of money to be held in the said division.

The Secretary of the Treasury may transfer funds.

SEC. 6. That the division of issue and redemption shall, at Washington and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate, on demand:

Duties of division of issue and redemption.

First. Pay out gold coin for gold certificates;

Second. Pay out United States notes for currency certificates;

Third. Pay out gold coin in redemption of United States notes and Treasury notes of eighteen hundred and ninety;

Fourth. Pay out silver dollars for silver certificates of any denomination;

Fifth. Issue silver certificates of denominations of one dollar, two dollars, and five dollars in exchange for silver dollars and for silver certificates of denominations above five dollars;

Sixth. Pay out gold coin in exchange for silver dollars;

Seventh. Pay out silver dollars held in the division of issue and redemption aforesaid, and not covered by outstanding silver certificates, in exchange for gold coin, United States notes, or Treasury notes;

Eighth. Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin;

Ninth. Pay out gold coin in exchange for subsidiary and minor coins presented in sums of twenty dollars or multiples thereof, and pay out subsidiary and minor coins in sums of twenty dollars or multiples thereof in exchange for any lawful money;

Tenth. Pay out in redemption of national-bank notes the moneys in the division available for that purpose.

Gold certificates and currency certificates retired and canceled.

SEC. 7. That gold certificates and currency certificates shall, whenever presented and paid or received in the Treasury, be retired and canceled. All provisions of law authorizing the issue or reissue of gold certificates or currency certificates are hereby repealed.

Exchange of gold coin and United States notes and Treasury notes.

SEC. 8. That when the division of issue and redemption shall have paid out gold coin in exchange for United States notes and Treasury notes presented for payment, it shall from time to time cancel such amounts of notes so paid as shall not exceed the amount of national currency notes issued subsequent to the taking effect of this act.

United States notes may be transferred for cancellation.

SEC. 9. That the Secretary of the Treasury may, in his discretion, from any funds in the general Treasury not set apart under section four of this act or otherwise appropriated, transfer to the division of issue and redemption any United States notes or Treasury notes which, on such transfer, could then lawfully be canceled under the provisions of this act if they had been redeemed on presentation; and when so transferred the same shall be canceled. And the Secretary of the Treasury, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be canceled under the provisions of this act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be canceled.

United States notes redeemed in gold not to be paid out except for gold or United States bonds.

SEC. 10. That United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin, unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be canceled under the provisions of this act, in which case the Secretary of the Treasury shall have authority, if in his judgment that course is necessary for the public welfare, to invest the same, or any portion thereof, in bonds of the United States for the benefit of the gold reserve in the division of issue and redemption, such bonds to be held in the aforesaid division, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the said reserve in the said division of issue and redemption, and not for any other purpose.

SEC. 11. That no United States note or Treasury note issued under the act of July fourteenth, eighteen hundred and ninety, of a denomination less than ten dollars shall hereafter be issued, and silver certificates shall hereafter be issued or paid out only in denominations of one dollar, two dollars, and five dollars against silver dollars deposited in the division of issue and redemption, or in exchange for silver certificates of denominations exceeding five dollars.

No United States notes less than ten dollars. Silver certificates, one dollar, two dollars, five dollars.

SEC. 12. That the circulating notes provided for in this act shall consist of two classes, namely, national reserve notes and national currency notes. The words "national reserve notes," when used in this act, shall be understood to mean notes issued to a national banking association in exchange for United States notes, and for whose current redemption the banking association receiving the same shall be made immediately liable, and whose ultimate payment shall be by the Government of the United States.

Two classes of notes defined.

That the words "national currency notes," when used in this act, shall be understood to mean notes issued upon the assets of a national banking association, whether secured by deposited United States bonds or otherwise, and constituting a direct and ultimate liability of the said banking association, as provided in this act.

SEC. 13. That any national banking association, on complying with the provisions of this act, shall, if its capital be wholly paid up and unimpaired, be entitled to receive from the Comptroller of the Currency national currency notes of different denominations hereinafter provided (none, however, being less than ten dollars) in blank, registered and countersigned, as provided by law, to the amounts and in the manner following, and on the following terms and conditions, but in no case exceeding the amount of such paid-up and unimpaired capital:

Bank notes not to exceed capital of bank.

Subdivision A. That upon deposits by national banking associations of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, such associations shall be entitled to receive from the Comptroller of the Currency national currency notes of different denominations in blank, as provided by this act, equal in amount to the par value of the bonds so deposited, and national banking associations now having bonds on deposit for the security of circulating notes less in amount than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled to receive, immediately upon their reorganization under this act, national currency notes to an amount which will increase to the par value of the bonds the aggregate amount of circulating notes held by such associations in consequence of the deposit of such bonds; and when from time to time the circulating notes of any association issued prior to the passage of this act are received by the division of issue and redemption, and it shall be the duty of every national banking association to present them to said division as rapidly as possible, they shall be canceled, and said association shall be entitled to receive in lieu thereof an

Bond-based notes.

equivalent amount of the national currency notes provided for in this act: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of sections fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which said bonds may be deposited as security.

Reserve notes
and currency
notes.

Subdivision B. That any national banking association may deposit with the Treasurer of the United States, under such regulations as the Secretary of the Treasury may approve, United States notes, and shall then be entitled to receive in exchange therefor from the Comptroller of the Currency an equal amount of national reserve notes, of the kind and denominations described in section fourteen of this act, and to receive and issue in addition thereto an amount of national currency notes equal to the amount of national reserve notes received as aforesaid: *Provided, however*, That when any national banking association shall have taken out an amount of national reserve notes equal to thirty-five per centum of its capital, it shall not be required to take out any further amount of national reserve notes in order to be entitled to receive and issue national currency notes to the full amount of its paid up and unimpaired capital as authorized in this section.

That from and after three years after the passage of this act no national banking association shall be granted an extension or renewal of its charter, and from and after the passage of this act no national banking association shall be granted a certificate of organization, unless such association shall take out in the manner prescribed herein an amount of national reserve notes equal to at least twenty-five per centum of its capital, subject to the exemptions provided in section eighteen of this act.

United States notes received into the division of issue and redemption in exchange for national reserve notes shall be canceled as received.

National cur-
rency notes para-
mount lien on all
assets.

Subdivision C. That the national currency notes constitute a paramount lien upon the bonds deposited to secure circulation and upon all the other assets of the association issuing such notes.

Description of
notes.

SEC. 14. That in order to furnish suitable notes for circulation, the Comptroller of the Currency shall, under the direction of the Secretary of the Treasury, cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank of the denominations of ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars, as may be required to supply the associations entitled to receive the same.

Each national currency note shall express upon its face the promise of the association receiving and issuing the

same to pay the specified amount on demand, attested by the signatures of the president or vice-president and the cashier of such association; it shall also bear upon its face the statement that it is issued in accordance with the provisions of this act, which statement shall be attested by the written or engraved signature of the Comptroller of the Currency, and shall bear such devices and other statements and be in such form as the Secretary of the Treasury shall, by regulation, direct.

Each national reserve note shall be in the same form and contain the same statements as the present United States legal-tender notes, and in addition thereto shall express upon its back or reverse side the promise of the national banking association receiving the same to pay on demand the sum specified on its face, which statement shall be attested by the signatures of the president or vice-president and cashier of such association.

No circulating notes shall be issued to any national banking association other than those described in this Act.

SEC. 15. That national reserve notes issued to any national banking association, as defined in this Act, shall be a full legal tender at their face value for all debts, public and private, except duties on imports and interest on the public debt, and shall be available for use in the reserves of any national banking association; but no national banking association shall count or report any of its own notes as a part of its cash or cash assets. Reserve notes
a legal tender.

SEC. 16. That each year after the expiration of one year from the passage of this act the Secretary of the Treasury may, from time to time, and at such times as to him shall seem best, and under regulations to be prescribed by him, decrease the deposits of the United States bonds required to be deposited under Subdivision A of section thirteen of this act by one-fourth of the amount of the bonds required to be deposited under this act as a basis of circulation, and from and after the expiration of five years from the passage of this act no such bond deposits shall be required; and no further deposit of bonds shall be required than is prescribed in this act; and any national banking association having at any time bonds of the United States deposited with the Treasurer in excess of the amount required by law to be at such time deposited may withdraw the whole or any part of such excess; *Provided, however,* That such decrease in the amount of bonds required to be deposited shall not of itself in any way interfere with the amount of circulating notes previously issued by said banking association: *And provided further,* That nothing herein contained shall be construed to authorize or permit the withdrawal of bonds required to be deposited under the provisions of section fifty-one hundred and fifty-three of the Revised Statutes of the United States as security for the safe-keeping and prompt payment of the public moneys deposited with any national banking associations. Reduction of
bond deposits re-
quired.

SEC. 17. That any national banking association organized within five years after the passage of this Act shall Bonds re-
quired during
five years.

be required, preliminary to commencing business, to deposit only such amount of United States bonds as it would be required to have on deposit if it had been organized immediately after the passage of this Act.

Currency notes
finally without
taking out re-
serve notes.

SEC. 18. That after so many United States notes have been canceled and destroyed, as herein provided, that in the judgment of the Secretary of the Treasury no more of such notes are available for use as a basis for the issue of circulating notes, the deposit of such United States notes as provided in section thirteen of this Act shall no longer be required, but Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, may then be accepted in lieu of United States notes; and when in the judgment of the Secretary of the Treasury no more of such Treasury notes are available for use as a basis for the issue of circulating notes, the deposit of such notes shall no longer be required, and national banking associations shall then be entitled to receive national currency notes to the amount which they would have been entitled to receive if such United States notes or Treasury notes were available for such use.

Reduction of
circulation.

SEC. 19. That any national banking association desiring to reduce the volume of its national currency notes may do so by redeeming the same and sending such redeemed notes to the Comptroller of the Currency, with the request that they be canceled; and the Comptroller of the Currency may carry to the credit of any national banking association, or reimburse to it, the excess of either the bank-note redemption fund or the bank-note guaranty fund, or both, above the amount required by this act to be held against outstanding circulation.

Bank-note
guaranty fund.

SEC. 20. That every national banking association shall at all times keep and have on deposit with the division of issue and redemption for the purpose hereinafter specified a sum in gold coin equal to five per centum of its outstanding circulation of national currency notes not secured by United States bonds. The amount so kept on deposit shall constitute a fund to be known as the "bank-note guaranty fund," which fund shall be held for the following purpose, and for no other, namely:

Whenever the Comptroller of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven of the Revised Statutes of the United States, that any association has refused to pay any of its circulating notes on demand, he shall direct the redemption of its national currency notes from the bank-note guaranty fund aforesaid, and the redemption in gold coin of the United States of the national reserve notes issued to it from the reserve fund in the division of issue and redemption, and such notes shall thereupon be redeemed. After the failure of any national banking association to redeem any of said notes shall have been thus ascertained, the bonds deposited by it with the Treasurer of the United States shall be sold as provided by law, and the proceeds

of such sale shall be paid into the bank-note guaranty fund.

The Comptroller of the Currency shall forthwith collect, for the benefit of said bank-note guaranty fund, from the assets of the bank and from the stockholders thereof, according to their liability as declared by this act, such sum as, with the bank's balance in the bank-note guaranty fund as aforesaid, shall equal the amount of its national currency notes outstanding. And for this purpose the United States shall, on behalf of the bank-note guaranty fund, have a paramount lien upon all the assets of the association; and such fund shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

All national reserve notes so redeemed shall be canceled and destroyed, and all national currency notes so redeemed shall be held by the Treasury Department in the division of issue and redemption until the conclusion of the proceedings of liquidation of said bank and shall thereupon be canceled and destroyed.

The provisions of sections fifty-two hundred and twenty-six, fifty-two hundred and twenty-seven, fifty-two hundred and twenty-eight, fifty-two hundred and twenty-nine, fifty-two hundred and thirty-four, fifty-two hundred and thirty-seven of the Revised Statutes shall be applicable in the case of the failure of any national banking association to redeem in compliance with law the national reserve notes issued to it.

SEC. 21. That whenever the Comptroller of the Currency shall ascertain what deficiency, if any, exists between the aggregate collection for the benefit of the bank-note guaranty fund in the case of any failed bank and the amount of its national currency notes redeemed and to be redeemed from the said fund, he shall assess such deficiency upon all the national banks in proportion to their national currency notes not secured by United States bonds outstanding at the time of the failure of such bank, said assessment, however, not to exceed in any one year one per centum of the amount of such circulation of the several banking associations, respectively.

Assessment in case of deficiency in bank-note guaranty fund.

SEC. 22. That the Secretary of the Treasury be, and he is hereby, authorized in his discretion to cause to be invested in bonds of the United States any portion of the guaranty fund hereinbefore provided for; and such bonds shall be held and disposed of for the benefit of such fund.

Guaranty fund may be invested in United States bonds.

SEC. 23. That all interest accruing from the investment of any portion of the aforesaid guaranty fund, and all funds received in payment of the duties on circulation provided for in this act, shall be held in the division of issue and redemption in gold coin or in United States bonds, in the discretion of the Secretary of the Treasury, and shall be a fund supplementary to the guaranty fund, to be used only in case said guaranty fund shall ever become insufficient to redeem any national currency notes issued under the provisions of this act, and it shall not be taken into account in estimating the amount of assessments necessary to

Interest to constitute fund supplementary to bank-note guaranty fund.

replenish said guaranty fund or in repayment to banks of their contributions to the guaranty fund.

Redemption fund.

SEC. 24. That the fund of five per centum of outstanding circulating notes required to be kept on deposit by every national banking association for the current redemption of the circulating notes of such association shall be required to be equal to five per centum of all the national reserve notes issued to it and of its national currency notes outstanding, and shall be in gold coin of the United States; and the Comptroller of the Currency shall, with the approval of the Secretary of the Treasury, have authority to provide for the redemption of said notes at any or all of the sub-treasuries of the United States, and said notes shall be paid in gold coin of the United States.

Liability of United States for redemption.

SEC. 25. That so much of section three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national-bank currency, and for other purposes," as reads "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States notes," be amended to read: "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, at the Treasury, or at such subtreasuries or other redemption agencies as may be designated by the Comptroller of the Currency, the same shall be redeemed in gold coin of the United States; and authority is hereby given to the Comptroller, with the approval of the Secretary of the Treasury, to establish such other redemption agencies. But nothing in this act contained shall be construed to impose upon the United States any liability for the redemption of the notes of any national banking association, other than the national reserve notes, beyond the proper application of the redemption and guaranty funds deposited with the division of issue and redemption and the enforcement of the remedies by this act provided."

One-fourth of reserves in gold coin.

SEC. 26. That at least one-fourth of the reserve of twenty-five per centum of the aggregate amount of its deposits required under the provisions of existing law to be held by every national banking association in either of the cities designated as reserve or central reserve cities, and at least one-fourth of the reserve of fifteen per centum of the aggregate amount of its deposits required to be held by every other association, shall consist of gold coin of the United States actually held in the vaults of such bank: *Provided*, That nothing in this section, except as expressly provided, shall be construed to alter or in any way affect the provisions of existing law governing the maintenance of reserves.

No contribution to the bank-note guaranty fund provided for in section twenty of this act shall be counted by any national banking association as a part of its lawful reserve.

SEC. 27. That when the amount of the national currency notes of any national banking association issued under this act shall exceed sixty per centum of its capital, every such national banking association shall pay, on or before the last day of every month, to the division of issue and redemption a duty imposed at the rate of two per centum per annum upon the average daily amount of said notes outstanding in excess of sixty per centum of its capital stock and not in excess of eighty per centum of such capital stock, and a duty imposed at the rate of six per centum per annum upon the average daily amount of such notes outstanding in excess of eighty per centum of its capital stock: *Provided*, That for the purpose of computing the circulation subject to the tax herein provided for, all national currency notes, whether secured by United States bonds or not, shall be counted; but national currency notes secured by deposit of United States bonds shall not in any case be subject to the duty herein provided.

Duties on circulation.

Circulating notes of any national banking association shall be deemed and held to be outstanding whenever they shall have been supplied by the Comptroller of the Currency to such associations in blank, countersigned according to law, and shall not have been returned to the Comptroller for cancellation or covered by an equal amount of lawful money deposited with the Assistant Treasurer in charge of the division of issue and redemption for the retirement of such notes.

SEC. 28. That in order to enable the said Assistant Treasurer to assess the duties imposed by the preceding section, the Comptroller of the Currency shall, within five days from the first day of each calendar month, make a return to the said Assistant Treasurer of the United States, in such form as he may prescribe, of the average daily amount of national currency notes of each national banking association outstanding during the calendar month next preceding; and every national banking association shall be notified by said Assistant Treasurer of the United States, within ten days from the first day of each calendar month, of the amount of the duties upon its national currency notes due from it to the United States under this act; and every such association shall, before the last day of such calendar month, pay to the division of issue and redemption, in lawful money, the full amount of such tax; and whenever any association fails to pay the duties imposed by this act the sums due may be collected in the manner provided for the collection of taxes, or said Assistant Treasurer may reserve the amount so due out of the interest as it may become due on any bonds deposited with him by such defaulting association; and while such default continues no further amount of circulating notes shall be issued to such defaulting association.

Reports on circulation and collection of taxes.

SEC. 29. That every national banking association shall pay into the division of issue and redemption each half year, in the months of January and July, on or before the thirtieth day thereof, a duty of one-tenth of one per centum upon the value of its franchise, as measured by the aggre-

Duties on franchise.

gate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this act.

Banks going in
to liquidation.

SEC. 30. That every bank going into liquidation, voluntary or involuntary, shall, prior to the payment of its creditors other than noteholders, and the distribution of any of its assets to its shareholders, deposit with the Assistant Treasurer in charge of the division of issue and redemption lawful money to such an amount that its total deposits of lawful money shall equal the full amount of its outstanding national currency notes and its assessments provided for by this act.

Capital re-
quired.

SEC. 31. That section fifty-one hundred and thirty-eight of the Revised Statutes of the United States be amended to read as follows: "No association shall be organized under this title in a city the population of which exceeds fifty thousand inhabitants with a less capital than two hundred thousand dollars. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed fifteen thousand inhabitants, and that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed three thousand inhabitants."

Branch banks
authorized.

SEC. 32. That it shall be lawful for any national banking association to establish branches, under such rules and regulations as may be prescribed by the Comptroller of the Currency, with the approval of the Secretary of the Treasury.

Bank notes
not payable by
United States.

SEC. 33. That so much of section fifty-one hundred and eighty-two of the Revised Statutes of the United States as provides that the circulating notes of national banking associations shall be received at par "for all salaries and other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency," be, and the same is hereby, repealed.

Comptroller of
the Currency.

SEC. 34. That section three hundred and twenty-four of the Revised Statutes of the United States be amended so as to read as follows: "There shall be in the Department of the Treasury a bureau charged, except as in this act otherwise provided, with the execution of all laws passed by Congress relating to the issue and regulation of currency issued by national banking associations, the chief officer of which bureau shall be called the Comptroller of the Cur-

rency, and he shall perform his duties under the general direction of the Secretary of the Treasury."

SEC. 35. That the examination of the affairs of every national banking association authorized by existing laws shall take place at least twice in each calendar year, and as much oftener as the Comptroller of the Currency shall consider necessary in order to furnish a full and complete knowledge of its condition; and the person making such examination shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Secretary of the Treasury; but the expense of the examination herein provided for shall be assessed by the Comptroller of the Currency upon the associations examined. The Comptroller of the Currency shall so arrange the duties of national bank examiners that no two successive examinations of any association shall be made by the same examiner.

Examination
of banks.

SEC. 36. That no association shall hereafter make any loan or grant any gratuity to any examiner of such association. Any association offending against this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to the money so loaned or gratuity so given; and the officer or officers of such association who shall make such loan or grant such gratuity shall be likewise deemed guilty of a misdemeanor, and shall be fined not to exceed five hundred dollars. And any examiner accepting a loan or gratuity from any association examined by him shall be deemed guilty of a misdemeanor, and shall be fined not more than five hundred dollars and a further sum equal to the money so loaned or gratuity given, and shall be forthwith dismissed from the service.

Loans or gratu-
ities to examiners
forbidden.

SEC. 37. That the Comptroller of the Currency, in addition to the reports provided for by existing laws, shall have authority to call for such other reports, regular or special, as he may deem advisable; and such reports shall be rendered in such form as the Comptroller may prescribe, and each association making such report shall cause a copy thereof to be conspicuously displayed in a public place in its banking house for the period of thirty days from the date of such report; but nothing herein contained shall be construed to require the publication of such additional reports by each association in the manner prescribed for other reports now rendered.

Extra exami-
nations provided
for.

SEC. 38. That any national banking association heretofore organized may, at any time within one year from the passage of this act, and with the approval of the Comptroller of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not

One year for re-
organisation.

less than two-thirds of the capital stock of the association. Any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions hereinbefore stated, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guaranty of its circulating notes, or which shall fail to comply with any other provision of this act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred: *Provided further*, That compliance with the provisions of this section by any national banking association shall not be construed as abrogating or changing the term of the existing charter of the bank in so far as to require compliance with the provisions for the organization of new banks.

State banks
may reorganize
under this act.

SEC. 39. That any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of this act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptroller of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptroller. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of law. When the Comptroller of the Currency has given to any such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges, and shall be subject to the same duties, liabilities, and regulations in all respects as shall have been prescribed for associations originally organized as national banking associations under this act.

Modification of
act for extension
of corporate ex-
istence.

SEC. 40. That so much of section nine of an act entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as reads as follows, "And no national bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such deposit of lawful money for the purpose aforesaid: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose: *And provided*, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof," be, and the same is hereby, repealed; and the Comptroller of the Currency is hereby authorized and directed to have pre-

pared and keep on hand, ready for delivery on application, blank notes to such an amount as he may deem advisable for each national banking association having circulation.

SEC. 41. That nothing contained in this act shall be construed to alter or affect any vested rights of property or contract, or any penalties incurred before the taking effect of this act, or any part of it. ^{Vested rights preserved.}

SEC. 42. That all provisions of law inconsistent with or superseded by any of the provisions of this act, be, and the same are hereby, repealed. ^{General repealer.}

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REPORT OF THE SPECIAL SUBCOMMITTEE

ON THE BILL DRAFTED BY IT, ENTITLED

**A BILL TO PROVIDE FOR STRENGTHENING THE PUBLIC CREDIT,
FOR THE RELIEF OF THE UNITED STATES TREASURY, AND FOR
THE AMENDMENT OF THE LAWS RELATING TO NATIONAL
BANKING ASSOCIATIONS.**

The purpose of this bill, as declared by its title, is the strengthening of the public credit, the relief of the United States Treasury, and the amendment of the laws relating to national banking. These objects, we believe, will be best attained by relieving the Treasury Department of the current redemption of demand notes, casting that burden upon the national banks, and permitting the banks to provide the elastic element of the paper currency of the country. These results are sought in the bill herewith reported by the following provisions:

THE GENERAL SCOPE OF THE BILL.

1. A division of issue and redemption is established in the Treasury, for which the Secretary of the Treasury is authorized to set aside the general cash balance in excess of \$50,000,000. This excess on March 17, 1898, was \$176,139,532. United States notes received by this division for redemption in gold are to be canceled and retired in proportion as certain substitute currency is issued. No note redeemed in gold is to be again paid out except under exceptional conditions, which are carefully guarded.

2. National banks are required to assume the current redemption of United States demand notes in order to obtain circulation based upon their commercial assets. A new class of notes, called "national reserve notes," is to be issued in lieu of legal-tender notes deposited by the banks with the Treasury, and these reserve notes are to be redeemed upon demand by the banks out of the redemption fund which they are required to maintain in gold. These reserve notes are not treated in any respect as bank notes, because the banks are not liable for their ultimate redemption.

3. The basis of national-bank note circulation will eventually be the commercial assets of the banks. This result will be reached, however, only after a series of years by a conservative method. National banks will continue to be required during one year after the passage of this bill to maintain the same amount of United States bonds as security for circulation which is required by existing law, but they will be permitted to issue notes to the face value of these bonds. This bond deposit may be reduced by one-fourth annually, beginning one year after the passage of the act.

4. National banks are to be permitted to issue "national currency notes" upon their commercial assets to the amount of the reserve notes

issued to them in return for deposits of United States notes. The purpose of this provision is to induce the conversion of United States notes into reserve notes, as well as to limit the issues of currency upon commercial assets.

5. Treasury notes issued under the act of July 14, 1890, are to be dealt with eventually upon the same basis as United States notes.

6. A tax of 2 per cent is levied upon national currency notes issued in excess of 60 per cent of the capital of any national bank. A tax of 6 per cent is levied upon circulation of the same character in excess of 80 per cent of the capital.

7. The national currency notes based upon commercial assets are to be secured by a bank-note guaranty fund, made up by the contribution in gold coin of 5 per cent of the entire circulation of the banks. This fund may be replenished by calls upon the banks, if reduced by the redemption of the notes of failed banks; but no bank shall be required to pay more than 1 per cent in addition to its original deposit of 5 per cent in any one year. The currency notes are also secured by a first lien upon the bonds on deposit as security and upon all the other assets of the bank.

8. The national reserve notes will continue to be legal tender until received into the Treasury from failed and liquidating banks, when liability for them will be assumed by the Government and they will be redeemed and canceled. Provision is made that they shall cease to be required as a basis of circulation when the Secretary of the Treasury is satisfied that there is no longer a sufficient amount available to meet the demands for new banks and increased circulation.

9. Standard silver dollars are to be redeemable in gold, but silver certificates are redeemable only in standard silver dollars. The parity of silver with gold is secured by a gold redemption fund, deposited in the division of issue and redemption, equal to 5 per cent of the amount of silver which has been coined.

10. Silver certificates are hereafter to be issued only in denominations of \$1, \$2, and \$5. No United States notes or bank notes are to be issued in denominations below \$10.

11. National banks are required to pay a tax of one-eighth of 1 per cent semiannually upon their capital, surplus, and undivided profits.

12. National banks are permitted to establish branches, under regulations to be prescribed by the Secretary of the Treasury.

There are other provisions of the bill changing the existing national banking law in minor particulars, but they are nearly all directed to bringing existing law into harmony with the plan just outlined for the protection of the Treasury and the adoption of a more scientific banking currency. In view of the importance of these objects, your committee have thought proper to limit their discussion substantially to features enumerated above.

NECESSITY FOR PROTECTING THE TREASURY.

The necessity of so protecting the Treasury as to strengthen the public credit ought not to be a subject of dispute among those familiar with the events of the last five years. The essential purpose of the bill in this respect is to relieve the Treasury from the burden of the constant redemption of Government paper money, and to obviate the necessity of selling interest-bearing bonds running for a long term in order to obtain gold for the continued and repeated redemption of the notes. It does not matter what view is taken of the responsibility for

the condition in which the Treasury has been found on several occasions during the last five years, which has resulted in the issue of \$262,000,090 in long-term interest bearing bonds. If any political organization or any error of administration at the Treasury Department is responsible for these events, it only emphasizes the necessity of placing our currency system beyond the reach of political accidents. Our financial system should be such that no Administration, without radical change of law, should have the power to involve the commercial business of the country in disaster because the fiscal and banking operations of the Treasury might not be wisely conducted. This is one of the essential purposes of the bill reported by your committee—to separate the operations of the fiscal service of the Government from the operations of commercial banking.

There can be no question of the benefits to the Treasury and to the public credit in relieving the Treasury of the constant necessity of redeeming demand obligations. Such objections as have been made to methods heretofore proposed for terminating these conditions are, we believe, obviated by the plan herewith reported. The details and operation of that plan will be discussed after a general definition of the purposes of the proposed bill. Your committee propose to relieve the Treasury absolutely of the obligation of finding gold for the redemption of a very large proportion of the legal-tender notes, and they believe that the small amount of such notes left outstanding will be given such enhanced credit by the operation of their plan that they will never again become a menace to the public credit and never bring in question the ability of the United States to fulfill the mandate of the act of November 1, 1893—"the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts."

EFFECTS OF DOUBT ABOUT THE PARITY.

The importance of maintaining unquestioned and unimpaired the parity of all our forms of money is such that it involves almost every transaction of life and peculiarly the volume of business, the safety of investments, the value of pensions and insurance policies, and the legitimate profits of agricultural, industrial, and mercantile enterprises. From 1893 to 1896, the United States, by heroic efforts, succeeded in preventing any depreciation of their paper currency, but the mere suspicion of the possibility that such a depreciation might occur was among the potent causes of the shrinkage of values and the paralysis of industry. Some conception of the effects of this uncertainty may be formed from the fact that the transactions of the New York clearing house shrunk from \$34,421,380,870 for the year ending October 1, 1893, to \$24,230,145,368 for the year ending October 1, 1894. The clearings throughout the leading cities of the country showed a shrinkage in the same period from \$58,880,682,455 to \$45,017,960,736. Figures like these measure, in some slight degree, the reduction in the volume of business, in the earnings of the people and in the employment for labor. There can be no doubt also that the withdrawal of foreign capital, as the result of like uncertainty regarding the maintenance of the parity of all our forms of money, added to the tendency to panic by the persistent withdrawal of gold, and diminished by the amount withdrawn the productive resources of the country.

The cost to the laboring and industrial interests of the country was many times the amount which could possibly have been saved to the

Treasury by the issue of a noninterest-bearing for an interest-bearing security. Even under the latter head the maintenance of a mass of Government paper at parity with gold by direct gold redemptions at the Treasury Department required, prior to the resumption of specie payments in 1879, the issue of United States bonds to the amount of \$95,500,000 and the issue in 1894, 1895, and 1896 of additional bonds to the amount of \$262,315,400. These several issues of interest-bearing bonds, amounting to more than \$11,000,000 in excess of the whole volume of United States notes now outstanding, indicates in some measure the lack of economy, even from the narrow standpoint of the operations of the Treasury, in the maintenance of Government paper money unprotected by any of the usual resources of a bank of issue, discount, and deposit. The Treasury, moreover, loses constantly the interest on the entire gold reserve held for the redemption of United States notes. This reserve was officially stated on March 17, 1898, at \$170,432,007, so that of the entire amount of United States notes outstanding, amounting to \$346,681,016, not much more than half possessed in any true sense the character of a noninterest-bearing debt.

THE DISADVANTAGES OF GOVERNMENT BANKING.

The issue of paper money, redeemable directly by the Treasury, is a system which is not approved by the experience of any civilized State. It is not necessary for your committee to refer to the notorious incidents of the French assignats, nor the discredited issues of our own country during the war of the Revolution. Cases less conspicuous are those of the Austro-Hungarian monarchy, which resorted to this method of finance in 1847 and gave forced legal-tender character to its treasury issues. The result was the perpetuation of a premium upon gold, which has not yet been terminated. Energetic steps were taken in 1892 to bring this condition to a close and to leave to the Austro-Hungarian bank the management of the paper currency. One of the first of these measures, recommended by all the leading financiers and political economists of the Empire, was the reduction and cancellation of the Government legal-tender notes, and this process has been carried on until the premium upon gold has been reduced to a minimum, the Austro-Hungarian Bank has accumulated a large reserve, and the resumption of specie payments is upon the eve of accomplishment. A like course was taken by the German Empire when the currency system was unified in 1875, and bonds were issued to take up and cancel the outstanding notes of the various German States. The Government of Russia, which has just resumed gold payments through the Imperial Bank, always issued its notes through the bank, and was thereby able, in spite of some abuses of this power, to exercise banking methods in controlling discount and exchange. The foreign exchanges were thus kept at a fixed point for several years, and the Bank of Russia has been enabled to resume gold payments with an available gold fund of \$600,000,000. The experience of the South American countries, if it should be presented by your committee in detail, would afford even more striking proof of the failure of governments to maintain their legal-tender paper currency at parity with the metallic standard.

The history of the world hardly affords an instance of the successful maintenance of Government paper at parity with gold. The United States, from 1879 to 1893, afforded the most successful illustration of this experiment, but this period was one of prosperity seldom impaired

and of a rigid limitation of the note issues. When this limitation was removed by the act of July 14, 1890, providing for the issue of additional legal-tender Government notes for the purchase of silver bullion, the usual effects of a government paper currency soon reappeared, gold was largely expelled from circulation, doubt and distrust seized the markets, and the great loss inflicted upon the exchanges and upon the earnings of capital and labor foreshadowed in some slight degree the disaster which would have ensued by the actual suspension of the redemption of Government notes in gold.

THE BENEFITS OF A BANKING CURRENCY.

The essential objection to a paper currency issued by the Government brings us to the fundamental reasons which justify those portions of the bill reported relating to the banking currency of the country. A currency issued by commercial banks has the advantage that it is responsive in quantity to the demands of business. No such condition can exist with a Government paper currency. Such contraction and expansion as have occurred during recent years have been directly counter to the current of business necessity, as the result of the locking up of an excessive surplus when active business increased the revenues of the Government, and the pumping into the circulation of an excess of money when dull business created small revenues and a persistent Treasury deficit. The operation of a Government paper currency could never be automatic, like that of a bank currency. It must be subject either to the arbitrary will of an individual in the Treasury Department or to the accidents of the public revenue, often resulting in a redundant and excessive circulation in times of business depression, causing the expulsion of gold from the country and intensifying the conditions of panic arising from other causes. These facts are well understood by economists and have condemned government paper currency in nearly every enlightened country of the world. They have, moreover, justified the issue of currency through the banks, because such issues are governed by commercial conditions. By the law of self-preservation and by the enlightened self-interest which governs commercial operations, banks authorized to issue notes upon commercial assets diminish their issues when redundancy in the circulation is indicated by frequent demands for gold redemption and expand their issues to meet the needs of business when large gold imports indicate that the means of circulation are deficient.

A banking currency is not only sound in theory, but it is safe in practice. Whatever disasters have attended excessive issues of bank notes, they are not comparable in their effects to the disasters attending the issues of Government paper money, because bank-note issues can not change the standard of value nor the obligation of contracts. The issues of banks are not usually legal tender in payment of debt, and when they are made by law a legal tender it is almost universally upon the condition that they shall be redeemed upon demand in the metallic standard. The removal of the currency from the accidents of politics, by taking it out of the direct management of the Treasury Department, insures the maintenance of the parity of paper and metallic money so long as the maintenance of such parity is possible under any conditions. Conditions sometimes arise which compel specie suspension, but the fact that the banks are responsive to law and are the creatures of law insures the requirement that they shall resume specie payments at the earliest practicable moment. A government, on the other hand, is sovereign and acts within its own dis-

cretion in the payment of its debts. The people of the United States can be trusted not to be lenient with banks of issue in permitting them to suspend the redemption of their notes in specie beyond the time when such suspension may be absolutely required by political or economic conditions. No argument is conceivable which would appeal to the masses of the voters in favor of permitting the banks of the country to continue to float their noninterest-bearing notes at a discount in coin for any such period of seventeen years as the Government, in the exercise of its sovereignty, saw fit to take between 1862 and 1879.

THE ADVANTAGES OF EXTENDING CREDIT.

More important in some respects to a country like the United States is the power for the extension of credit by means of bank-note issues. A bank note is essentially the same in character as the note of an individual or the check of a bank. It comes even closer in character to a certified check. It is substantially the certified check of the bank, printed and issued in such a form as to be conveniently transferable from one holder to another without indorsement. It is a well-reasoned theory of economic students that there is no more justification for imposing an arbitrary limit upon bank-note issues than upon the issue of personal obligations, like promissory notes and checks. The reason which justifies regulation of bank-note issues is that of the convenience of the holder, who should not be compelled to make personal research as to the responsibility of the issuer of each note and distinguish between the notes which he receives. But such regulation should not be of a character to hamper industry or deprive commerce of its legitimate tools of exchange. It would be immaterial in a community closely populated, with banks of deposit within easy reach, and where every member was accustomed to deposit books and checks, whether any currency were in circulation beyond the smallest amount for change. The necessity for a banking currency is derived from the conditions of a thinly settled community where the substitutes for bank notes, checks, and deposit books are not within easy reach and in general use.

It is the belief of your committee, sustained by a great volume of expert evidence, that the present national banking system, with the issues of Government paper from the Treasury at Washington, does not meet the requirements of the country in respect to an elastic and sufficient circulating medium. The issue of a banking currency based upon commercial assets would, in our opinion, permit the extension of banking into communities where such facilities are now lacking, and would tend at once to afford a convenient medium of exchange, to extend credit where it can not now be readily obtained, and, by competition among the banks and the increased opportunities for making loans, reduce the rate of interest in a degree which would be obvious and advantageous to the community. Such an extension of the means of credit is within the legitimate province of banking, and can not be considered as involving undue inflation, when the banks are held to the maintenance of the parity of their notes with the metallic standard, any more than issues of promissory notes and checks can be considered dangerous or subjected to any other legal regulation than the requirement of payment in the standard at maturity.

THE NECESSITY OF CAUTION IN MAKING CHANGES.

While the principles thus set forth are the fundamental principles which should govern the issue of currency, your committee have been

conscious of the fact that the United States have been long accustomed to a different system of currency and that radical and rapid changes might induce anxiety and disturbance. We have therefore proceeded with an abundant measure of conservatism in proposing to apply these principles of currency to existing conditions in the United States. We have provided in the bill herewith reported a system which departs only by degrees from the existing system and which at nearly every step leaves the field open for the competitive trial of the new system along with the old. Such a trial, it is reasonable to believe, would result in adherence to that which proves safest and most advantageous to the community. Wide discretion is given to the Comptroller of the Currency and the Secretary of the Treasury to arrest any undue expansion of bank-note circulation, and to refuse to admit to the new system banks which do not prove their solvency and conservatism. The new system, moreover, is to be substituted only over a series of years for the old, and if at any step the substitution appears to involve danger, either to the national credit or to safe rules of banking, it will be in the power of Congress to arrest the change before it has attained a dangerous momentum. Your committee, reenforced by the study of the banking history of all nations, so firmly believe that the new system will vindicate its soundness and benefits to the country that they have so adjusted the provisions of the proposed bill that the relations of the new to the old during the transition period will be essentially a question of the survival of the fittest.

A LOAN BY THE BANKS TO THE GOVERNMENT.

Taking up the details of the first portion of the bill, dealing with the existing legal-tender notes of the Government, your committee have endeavored to adopt a system which would be subject to none of the criticism made against the issue of interest-bearing bonds or the taxation of the people for the payment of this demand debt. While the arguments are strong for the adoption of one of these methods of paying back to the creditors of the United States the money thus borrowed for the preservation of the Union, the system adopted is such as to continue to the Government all the benefits of the loan without any of the disadvantages of its character as a demand obligation. The proposed bill places upon the banks the burden of carrying and sustaining this debt. The form of the proposition submitted by your committee makes that portion of the demand debt which is not now covered by gold in the Treasury a loan by the banks to the Government. This loan is made without interest and without any compensation to the banks except what is afforded them by the power to issue a banking currency which is granted in other sections of the bill. There is no profit or return to the banks in thus carrying the nation's debt, and they are required by the bill to assume this obligation as compensation for the franchise and privileges granted them as national banking corporations. This policy is not without precedent in that of European governments, but the privileges granted by those governments are enormously greater, because they are granted to a single bank having a monopoly of all the note issues of the country. The Bank of France, for instance, makes to the Government a loan without interest, which has just been increased to 180,000,000 francs, or about \$35,000,000; but this loan is substantially offset by the deposits of the treasury with the bank, which amounted on January 7, 1898, to 212,268,560 francs, or

32,000,000 francs in excess of the entire sum advanced to the Government. The Government of Austria-Hungary has an advance from the Austro-Hungarian Bank amounting to about 75,000,000 florins, or \$30,000,000, but this is in process of annual reduction by the amount of the profits of the bank charged as a Government tax, but actually employed for the reduction of the loan. These are illustrations of several similar cases, but they serve to show that no country imposes so heavy a burden upon its banks as this bill provides, unless under the pressure of dire necessity, as in the cases of the Governments of Spain, Portugal, and Italy.

This heavy burden assumed by the banks must be given its due weight in measuring any additional privileges which are given them by this bill. The banks are required to redeem this debt of the Government now assumed by them, upon precisely the same terms as the redemption of their own notes while they are conducting a solvent banking business. It is only when, by the refusal to pay such notes, they become insolvent that the Government recognizes again its demand debt and assumes it for the complete protection of the holder of the note and for the benefit of the creditors of the bank by leaving the remaining assets unimpaired for the settlement of their just claims. The form of note thus assumed by the bank with the final redemption guaranteed by the Government combines the strongest of all resources for its ultimate payment. Current opinion sometimes runs into error regarding the whole wealth and resources of the nation as an adequate basis for paper currency. The difficulty with the present redemption system is that this great wealth and these great resources are available only through the power of taxation. The conduct of a proper banking business and the issue of circulating notes, redeemable in coin on demand, requires a mass of assets which can be quickly converted into cash without loss. This security the Government now lacks and the bank now possesses. The note which it is proposed to issue under this bill in lieu of the Government notes is called the national reserve note—a designation which may be taken to imply at once that it has behind it not only the banking resources of the issuing bank, but the reserve strength of the National Government, and also that it is peculiarly available for money reserves of all kinds. It is, moreover, a legal-tender note whose parity with gold is assured so long as the banks maintain the parity of their own notes and for whose parity the Government also is responsible, if it is conceivable that the Government should maintain specie payments while the banks were unable to do so.

AN ADEQUATE SUPPLY OF LEGAL-TENDER MONEY.

The country is thus provided with an ample legal-tender currency, consisting of all the notes substituted for the present legal-tender notes, and of all the gold and silver coin in circulation, to the maintenance of whose parity the faith of the Government is sacredly pledged. This mass of legal-tender money, according to the computations of the Treasury for March 1, 1898, consisted of \$705,494,037 in gold coin, \$458,100,347 in standard silver dollars, \$346,681,016 in United States notes, and \$104,669,280 in Treasury notes issued under the act of July 14, 1890. This entire amount of legal-tender money, exceeding \$1,600,000,000, will not be replaced by money which is not legal tender under the bill reported by your committee except by the amount of legal-tender notes redeemed in gold now held in the Treasury. This amount can not exceed in any case about

\$150,000,000 and would still leave other legal-tender money in circulation in the country to the amount of a billion and a half of dollars. Your committee believe that a very large proportion of the existing amount of legal-tender notes of both classes, amounting in the aggregate to about \$450,000,000, will be absorbed by the banks as reserve notes. The inducement to the banks to employ them for this purpose is the power to issue currency upon their general banking assets, which is set forth farther on.

There are several possible results which may follow the authority given the banks to assume the Government debt and issue reserve notes. It is conceivable and probable that a large proportion of the present legal-tender notes will be converted into reserve notes, and will cease absolutely to be redeemable at the Treasury except in the occasional cases of the failure or liquidation of the bank through which they are issued. If, however, only a small portion of the legal-tender notes are thus absorbed, the fact that they are canceled when redeemed in gold by the Treasury will give them a value which will at once remove all question of their prompt redemption and will give them substantially the character of gold certificates. The fact that a note is to be canceled on redemption and not reissued will tend very greatly to prevent its presentation for redemption. This is illustrated by the recent history of the Treasury gold certificates, whose issue was suspended when the Government gold reserve fell below \$100,000,000 in 1893, and has never been resumed. Some of these certificates were received as the equivalent of gold, in payment for the bond issues of 1894, 1895, and 1896, but from July 31, 1896, to March 17, 1898, the whole amount presented for redemption was only \$2,851,260 out of a total of \$39,293,479 outstanding on the earlier date. The United States notes presented within the same period for redemption, according to the daily statements of the Treasury, amounted to \$71,518,332 out of a total of \$237,410,538 outstanding on the earlier date.

Even if it should happen that all the outstanding notes not exchanged for reserve notes should be rapidly presented for redemption, their payment in gold would soon terminate the obligation of the Government upon such notes, because they would be canceled and not reissued. If the entire gold reserve, which stood on March 17, 1898, at \$170,432,007, should be thus paid out in the redemption of notes, that amount of notes would be permanently canceled, and the amount of legal-tender notes of both classes—United States notes and Treasury notes—remaining anywhere in existence would be reduced to about \$280,000,000. The national banks held on December 15, 1897, the date of the latest available report, \$172,596,020 in legal-tender notes or certificates of deposit covering the deposit of such notes with the Treasury. These notes are held to a large extent as necessary reserves, and if their amount is deducted from the notes left outstanding the whole remaining amount of notes would be reduced to the moderate sum of \$108,000,000. It is probable that a considerable portion of these have either been destroyed or would be so carefully hoarded that they would not for many years reach the Treasury either for redemption or for transformation into reserve notes. In any conceivable situation the burden of demand liabilities outstanding against the Treasury would be so reduced that its present burden would be greatly diminished, and the ordinary gold receipts for customs and through the surrender of assay office checks for currency would supply an ample gold fund for all possible demands.

THE BANKS COMPELLED TO PROVIDE GOLD.

The purpose and effect of the proposed bill is to throw upon the national banks the entire burden of finding gold for the notes of the country. There is no doubt of their ability to do this if it is required by law.

The system proposed by your committee provides an easy and adequate method of obtaining gold for export from the banks without exposing the country or the United States Treasury to the alarm and convulsions which have attended gold exports during the last five years. The banks are required by the bill to maintain the 5 per cent current redemption fund in gold. Redemption agencies are authorized to be established at the various subtreasuries, and such an agency would undoubtedly be established by the Secretary of the Treasury at New York. The actual process of obtaining gold for export would be that any strong bank patronized by exporters would turn over the gold from its own vaults or from its reserves in the New York Clearing House. It is impossible to evade this obligation. In case of an effort to evade it, the process would be that a bank would deliver its own notes to a depositor making a draft upon his account. He would be under no obligation to accept them, but if he did accept them could at once present them for redemption in lawful money. The bank, still wishing to evade the payment of gold, might then tender him reserve notes issued either by itself or by other banks. But these reserve notes would be redeemable out of the gold redemption fund maintained by the banks, and it would only require their presentation at the subtreasury to secure their redemption from this fund. The banks whose reserve notes were thus presented would then be called upon by the Comptroller to make good the deficiency in their coin in the redemption fund and the burden of obtaining the gold would fall directly upon them. This being the case, it would be immaterial to the people of the United States whether one bank by paying its own notes or reserve notes shifted the burden of maintaining the redemption fund upon another bank. The banks in any case would bear the whole burden and would be compelled to so adjust their loans as to secure favorable exchanges, prevent the undue export of gold, and maintain the credit of the business community and of the Government.

NO CONTRACTION OF THE CURRENCY.

While your committee have thus greatly lightened the burden of the Treasury under any conceivable conditions, they have not provided for any contraction of the existing circulation. The gold now kept in the gold reserve of the Treasury might be paid out in the redemption and cancellation of legal-tender notes, but this operation would simply substitute gold for paper in the circulation and would not in any degree diminish the legal-tender money in the hands of the people. A legal-tender note, under the bill proposed by your committee, might cease to be a menace to the Treasury either by exchange for gold and final cancellation, by the assumption of its current redemption by the banks, or by the enhanced value which it would obtain from the fact that the quantity was diminished; but the legal-tender currency in the hands of the people would not be reduced by either of these operations. Your committee believe that the system of dealing with the Government notes which they propose removes every possible objection which has

heretofore been made to relieving the Treasury of their redemption, except such objections as may be based upon the desire that the Government shall issue an unlimited volume of forced legal-tender paper which is not redeemable in coin or capable of being maintained at any fixed value.

The plan proposed regarding the extension of existing credit facilities we believe is equally free from intelligent objection. The permissive feature in regard to the legal-tender notes, which leaves it optional with their holders to turn them into gold or reserve notes or to continue to hold them is carried out in regard to the proposed bank-note currency. The existing national banking system is taken as it is, and any bank so desiring may continue to issue circulation exactly as it has issued circulation heretofore. After a period of five years it is proposed to relieve national banks from the requirement of keeping bonds in the custody of the United States Treasurer as the basis of circulation. There is no requirement that the bank shall sell or dispose of the bonds, and, in fact, the majority of banks would probably continue to hold them as a part of their general assets. There is no ground for fear that this moderate permissive policy would cause any sensible depreciation of bonds, cause any loss by such depreciation to the banks, or throw any excessive quantity of bonds upon the market.

THE NEW PLAN FOR BANK-NOTE ISSUES.

Some of the theoretical arguments in favor of a currency based upon commercial assets, flexibly adjusted to the demands of business, have already been set forth. The present national bank note system, under which the notes are secured by a deposit of interest-bearing bonds with the United States Treasurer, does not afford this responsiveness to the demands of business. On the contrary, under the high premiums which now have to be paid for the bonds, the remarkable phenomenon is presented that as interest rates rise in the money market, indicating the scarcity of the circulating medium, it becomes less profitable to issue national bank circulation and more profitable to loan capital directly without putting it into the form of circulating notes. In this respect, as in respect to the accumulation of money in the Treasury in times of prosperity and large revenues, our present currency system works in the wrong direction—fettering trade when it most needs freedom and flooding the circulation with redundant paper when the markets are most sluggish.

For this reason we believe that the currency should be based upon the commercial assets of the banks, and that there should be no specific pledged security except a safety fund of such amount as, from the experience of our own and other countries, would protect the note holder against any possible loss. Your committee, however, mindful of the unfamiliarity of this proposition in the United States within the last thirty years, propose that no bank shall issue circulating notes which does not have on deposit as many bonds as are now required by law. It is proposed, however, to permit additional issues of notes equal to the amount of United States legal-tender notes which the banks are willing to assume as reserve notes. They then have the privilege of expanding their circulation, increasing their loans, and facilitating credit in just the degree in which they are willing to protect the Treasury by assuming its current gold liabilities. A bank with a capital of \$100,000 is required to deposit bonds with the United States Treasurer, as under existing law, to the amount of \$25,000 at par, and may obtain circulation for an equal amount. It may then deposit United

States notes and receive in exchange reserve notes for the amount deposited, and may receive in addition notes based upon its general assets. If the bank avails itself of the privilege thus accorded, it would deposit \$35,000 in United States notes, receiving therefor \$35,000 in reserve notes, and in addition \$35,000 in untaxed notes based upon its general assets. The reserve notes would constitute a current liability, but not an ultimate liability in case of failure or liquidation. The notes for which the bank would be ultimately liable would be the \$25,000 based upon United States bonds and the \$35,000 based upon its commercial assets. This would make a total of \$60,000 in notes for which the bank would be directly liable. Against this amount it would hold bonds of a par value of \$25,000 and a market value, if they were 4 per cent bonds due in 1907, at 114, of \$28,500.

Provision is also made that a bank may issue additional notes, with the approval of the Comptroller of the Currency, subject to a tax of 2 per cent, if the whole currency-note circulation exceeds 60 per cent of the capital, and is less than 80 per cent, and may issue additional notes subject to a tax of 6 per cent when the currency-note circulation exceeds 80 per cent. The national-currency notes can not in any case exceed 100 per cent of the paid-up capital of the bank. The purpose of this provision is to afford a margin for issues in times of emergency, when currency is hoarded and the demand for it is unnaturally increased. There would be no danger of the abuse of this privilege, because it is left under the control of the Comptroller of the Currency, and he would look with peculiar suspicion upon applications for excessive issues of currency under normal conditions.

The security against the excess of note issues above the value of the bonds would be the general assets of the bank, and the note holder is given a first lien upon all the assets of the bank. There can be no question of the perfect sufficiency of such security. If there were no other security whatever, the losses to note holders would be but a fraction of 1 per cent in many years. Secretary Gage, in his annual report for the fiscal year 1897, stated, upon statistics prepared by the Comptroller, that of 330 national banks placed in the hands of receivers during the existence of the national banking system for 35 years, there were only 18 whose assets would have failed to fully cover their circulating notes under the system which he proposed of issuing 25 per cent of the capital in currency based upon commercial assets. This proposition would remain substantially true under the system proposed by your committee if the banks took out 60 per cent of their capital in currency notes, and the deficiency would be only slightly increased if they took out all the notes which it is possible for them to issue under the bill reported. If there were no security whatever except the assets of the banks, with the liability of their holders for the amount of their shares, the losses to note holders would be so small that they would hardly reach an appreciable per cent of the income of the humblest citizen, and would count for nothing against the safety afforded by a bank-note currency in maintaining the metallic standard, or against the advantages to the country in the extension of credit in communities where it is now obtainable only at extravagant rates of interest.

THE BANK-NOTE GUARANTY FUND.

But your committee do not propose to permit even the possibility of a trifling loss to fall upon any holder of a note issued by a national bank of the United States. They propose a tax upon the banks for the crea-

tion of a safety fund out of which may be paid the notes of any bank which fails with assets insufficient to pay its note holders in full. They propose, moreover, that in the case of any bank failure there shall be no delay in the redemption of the notes, but that they shall be paid from the general fund created by taxation upon the banks, and that these payments shall be afterwards reimbursed to the fund when the assets are collected and settled. This bank-note guaranty fund is to consist at the outset of 5 per cent of the whole circulation for which the banks are ultimately liable. No guarantee fund of this kind will be required against the reserve notes. Provision must be made for their current redemption by payment by the banks to the bank-note redemption fund. But this is distinct from the guaranty fund, and the United States are the ultimate debtor for the reserve notes, and they do not fall as a burden upon the guaranty fund. The experience of all banking history demonstrates that this guaranty fund will be many times more than adequate for the redemption of the notes of failed banks. It can not be considered an excessive burden upon the banks, for it withdraws from them the use of only a portion of the currency which they are permitted to loan to the community upon commercial paper, in addition to the loan of such portions of their capital and deposits as are not invested in the required legal reserves.

It is proposed that if this 5 per cent guaranty fund becomes reduced or impaired by the redemption of notes of failed banks in advance of reimbursement from the assets the banks may be called upon to make good the fund. The fact that this liability is unlimited in some of the bills introduced into Congress has suggested the fear that strong banks may hesitate to enter the system for fear that they would be called upon to make large contributions for the redemption of the notes of weak banks. We do not believe that this fear is well founded. The very fact that it is not, and that a tax of 1 per cent a year would many times cover the possible losses upon such a currency, justify the fixing of such a limit. We have, therefore, provided that the liability of any national bank to the guaranty fund to make up losses caused by the redemption of the notes of failed banks shall never exceed 1 per cent annually upon its whole circulation. If it is conceivable that the demands of a given year should slightly exceed 1 per cent, it is not within the range of probability that they would equal that amount for a series of years, so that the impairment of the fund in a trifling degree for a single year would be made up in the following year or years. A liability of 1 per cent upon the circulation of a national bank is only the amount of the present tax upon circulation, so that we propose no added burden in any case, and the small burden proposed becomes contingent and improbable instead of fixed and certain. If the present tax of 1 per cent were to continue to be collected upon circulation and the bank-note circulation increased, as we believe it will within a very short period of years, to \$300,000,000, the annual collections would be \$3,000,000, and this would cover many times not only the losses in cases where failed banks had not sufficient assets to pay their notes, but would many times cover the entire amount of notes of failed banks, even where the assets were more than sufficient. The United States Treasury collected, from 1864 to the close of the fiscal year 1897, \$81,411,384 in taxes on circulation; from 1864 to the close of the fiscal year 1883, \$60,940,067 in taxes on deposits; and from 1864 to the close of the fiscal year 1883, \$7,855,887 in taxes on capital, making a total of \$150,207,339 for a period of thirty-four years, or an average of about \$4,400,000 per year. Your committee propose to lighten these taxes and to impose no contingent

liability which can equal the amount thus collected. The system, therefore, imposes no risk and no added burdens upon strong banks, and imposes no danger of loss to the holder of the notes of any bank.

ASSET BANKING IN THE LIGHT OF EXPERIENCE.

The system of issuing notes upon the commercial assets of a bank is the successful system of nearly every country of the world. There is a limit upon the circulation of the Bank of France, the Imperial Bank of Germany, the Austro-Hungarian Bank, and several other of the great national banks of Europe, but that portion of their circulation which is not covered by the coin reserve is permitted to be covered in a large degree by commercial assets and is not required to consist of government securities. A better illustration of the safety of note issues upon business assets is afforded by the history of Scotland and Canada, where competing banks issue their notes upon limited amounts of capital. The Scotch banks are not required to keep any guaranty fund and do not submit to any official inspection, but their notes circulate at par throughout the country and their quality is maintained by constant redemption. The Canadian banking system is of a similar character, but the 38 chartered banks are required to contribute toward a bank-note guaranty fund of substantially similar character to that proposed in the bill reported by your committee. The Canadian banks are not subject to Government inspection, but each bank employs its own inspector to supervise the accounts of the branches. The exhaustion of the guaranty fund has never occurred in Canada, and it is not likely to occur. The notes are a first lien upon the assets, and the stockholders are subject to a duplicate liability, as in the system proposed by your committee. Any bank in the Canadian Dominion promptly accepts the note of a failed bank at par, because it is known that the note will be promptly redeemed in full from the bank-note guaranty fund.

Reliance is sometimes placed by the critics of commercial banking upon the banking experience of the United States prior to 1861. Your committee do not believe that the conditions then existing apply to the situation of to-day. Bad banking is almost unavoidable in a new and undeveloped country, and the note issues usually play but a minor part in the abuse of credit. Banking experience has made great strides since 1861, and the charters of the great European banks have been materially modified within that period to conform to modern conditions and enlightened banking experience. Careful examination of the history of banking in the United States prior to 1861, moreover, discloses a situation which need not be feared by the advocate of note issues upon commercial assets. The systems which achieved the greatest success, whose notes passed at par throughout the Union or at a discount representing only the cost of exchange at that time, were those which issued notes upon commercial assets without pledged securities and which guaranteed the solidity of their issues by prompt redemption in coin on demand. This was the history of the Suffolk system, so successful in New England, and was the history of the State Bank of Indiana, in which one of the ablest of American financiers, Hugh McCulloch, completed his education. The State Bank of Indiana passed through the crisis of 1857 without suspending specie payments, and succeeded in retiring its circulation and liquidating its debts without loss to its creditors when the Government forced the suspension of specie payments by the issue of the demand notes in 1862.

SOLIDITY OF NOTE ISSUES UPON COMMERCIAL ASSETS.

With sufficient protection afforded by the bank-note guaranty fund against the occasional failure of a badly managed bank, the essential solidity of note issues upon commercial assets is bound up with the solidity of the business of the country. The advantage of having the whole commercial assets of the banks of the country pledged for the redemption of their notes lies in the fact that nearly the whole negotiable wealth of the country passes through their hands. The aggregate capital, surplus, undivided profits and individual deposits of national, State, and private banks, loan and trust companies and savings banks, as reported by the Comptroller of the Currency at the date of June 30, 1897, or about that date, was \$6,822,326,870. It is fair to assume that many of these banks which are not national banks would enter the system under the benefits afforded by the bill reported by your committee. These same items for the national banks alone on December 15, 1897, were \$2,887,000,000, and their loans were \$2,082,608,324. Since these loans are all payable within ninety days, with a circulation of \$300,000,000 issued by the existing national banks alone, the entire amount necessary to redeem this circulation in full would pass through the national banks within a period of about fifteen days. This control over quick assets, afforded by maturing commercial paper as well as by accumulated cash reserves, explains the secret of the greater ability of the banks to maintain the current redemption of circulating notes than of the Treasury, with its comparatively small resources. The general security of banking upon commercial assets and the fact that the system could not break down, except under an avalanche of calamity which would carry national, State, municipal, and private credit down also, is strikingly set forth in the report of the monetary commission appointed by the business men of the country for the framing of a currency bill, from which your committee has embodied several sections in the bill herewith reported. They say in their report:

The objection that is sometimes made that the larger banks in the great cities would not issue notes because of an apprehended liability for other banks is shown by statistics to be groundless. 1893 was the year of largest bank failures; but had all the banks of the country then issued notes up to 80 per cent of their capital, the amount of their assessment to make good the ascertained deficiencies of that year up to the time of the Comptroller's report of 1896 would have been only a fraction of 1 per cent. Had 80 per cent of the capital of all national banks been issued in notes upon the proposed plan since the beginning of the national banking system in 1863, the assessment upon the banks annually would have been an amount so insignificant that it need not be taken into account. Taking the country banks as a whole, it is found that on October 5 last they had \$401,000,000 of the \$631,000,000 of national-bank capital. Should they issue notes up to 80 per cent of that capital, they would have \$321,000,000 of notes, and there would be \$1,956,000,000 of resources against these notes, not counting stockholders' liability.

If these resources of the country banks are insufficient security for this amount of notes, they will be insufficient only because there would then be such a condition of business paralysis that Government, municipal, and railway bonds would be valueless, and also few, if any, banks in the reserve cities would remain solvent. The occurrence of this disaster is so improbable that its consideration may be dismissed.

THE PROTECTION OF DEPOSITORS AND OTHER CREDITORS.

Some figures prepared in the office of the Comptroller at the request of your committee indicate the adequacy of the assets of failed banks not only to fully protect their note holders, but to afford a large dividend to depositors and other creditors. The claims proved in the case of 181 failed banks, with a capital of \$28,605,800, whose accounts have been closed from 1865 to 1897, were \$48,608,635. The collections from

assets were \$40,680,908 and from assessments upon the shareholders \$6,369,033, making total collections of \$47,049,941. The dividends paid were \$35,165,660, and the cash returned to shareholders or in the hands of the Comptroller, in cases where the assets proved sufficient without the assessment upon shareholders to pay dividends in full, was \$1,013,741. The assets thus reported were absolutely exclusive of the amount required for the redemption of outstanding notes, since these were redeemed out of the proceeds of the bonds in the Treasury. The circulation thus redeemed was \$14,262,558. The two items of dividends paid and cash returned to shareholders make a total of \$36,179,401, or nearly 75 per cent of the claims proved. It is reasonable to assume that if the capital invested in bonds to secure circulation had been a part of the general assets it would have afforded also dividends of 75 per cent. The total sums available in that case would have been such that a dividend of 75 per cent could have been declared upon the circulation if it had not constituted a first lien upon the other assets. The two safety funds—the current redemption fund and the bank-note guaranty fund—would have afforded an additional asset of 10 per cent of the whole volume of circulation, and might have raised the dividend upon circulation to 85 per cent, without any draft upon the assets held for the security of other creditors.

The situation would not have been materially different if the 60 per cent of the capital, representing the untaxed note circulation proposed by your committee, had been outstanding. The circulation in that case would have been \$17,163,480. The assets available for dividends to note holders and general creditors and for return to shareholders would then have been increased by the sum of \$12,872,610, representing 75 per cent of the circulation, and by the value of the two safety funds, amounting to \$1,716,348. The entire assets thus available for disbursements in dividends would have been \$50,768,359, against claims proved amounting to \$65,772,115. If the circulation was provided for in full out of these assets, the remaining assets would be \$33,604,879, or only \$2,574,522 less than they were under existing law. The percentage of dividends paid would have been more than 69 per cent. This difference between 75 and 69 per cent measures, therefore, the possible loss to depositors and other creditors by the change from a currency based upon bonds to one based purely upon commercial assets. It is not unreasonable to believe that the double examinations and other safeguards provided by the proposed bill, and the precautions which will undoubtedly be taken by the Comptroller of the Currency, would wipe out this trifling difference and make the new system exactly as secure to general creditors as the existing system.

THE LOCALIZATION OF CREDIT.

One of the essential advantages of abolishing national bonds as a security for circulation and substituting a currency based upon commercial assets is the localization of the currency. This is brought about in several ways. The requirement that a part of the capital shall be invested in bonds in itself takes that capital out of the community and transfers it to the keeping of the seller of the bonds. The bonds were sold originally for the purpose of transferring capital from the control of the purchasers to the control of the Government of the United States for purposes of war. When sold and paid for in the proceeds of local industry, they transfer the control of capital from the purchaser to the man from whom he purchases. A bank in a community of small means

is thus deprived at the outset of a part of the funds which it ought to have for loans in the community. The extent of this loss is indicated by the consideration that with \$100,000 of capital (upon the basis of the 4 per cent bonds of 1907 at 114) only \$78,947 in circulating notes can be obtained under existing law, while under the plan proposed by your committee it is possible to issue \$60,000 in currency notes, \$35,000 in reserve notes, and to loan in addition \$28,000 of the unexpended capital, while \$40,000 additional may be issued in emergencies, subject to a tax.

The community is the gainer in the extension of credit and the promotion of its local industries by the difference between \$78,947 and a usual sum of \$123,000 and a possible \$163,000 under the proposed plan. More than this, a currency based upon commercial assets and not rendered rigid in volume by the deposit of special security comes back promptly to the issuing banks for redemption. The tendency of recent years for currency to drift to New York, where it is loaned at low rates of interest, would be largely arrested by the necessity of promptly sending notes back for redemption, and by the retirement of notes which were not needed in the commercial centers. Notes thus received back could be reissued and would, at the worst, be in the hands of the community for at least a time before they again took their flight toward the money centers.

The capacity to make larger loans means the capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed without sinking their capital in bonds purchased at a premium, and may compete for the legitimate profits afforded by reasonable interest rates. The fact that such conditions make a radical difference in the banking power and prosperity of a community is illustrated by some figures taken from official reports regarding the condition of the Southern States in 1860. These figures are as follows:

State.	Banking capital.	Loans and discounts.	Circulation.	Deposits.
Maryland.....	\$12,568,962	\$30,898,762	\$4,106,869	\$8,874,180
Virginia.....	16,005,156	24,975,792	9,812,197	7,729,652
North Carolina.....	6,626,478	12,213,372	5,594,657	1,487,373
South Carolina.....	14,962,062	27,801,912	11,475,634	4,165,615
Georgia.....	16,689,560	16,776,282	8,798,100	4,738,289
Alabama.....	4,901,000	13,570,027	7,477,976	4,851,153

These figures are thus commented upon and compared with existing conditions in a recent paper by Mr. Charles A. Conant, of Boston:

A glance at the column of deposits and then at that of loans shows how impossible it would have been for these banks to grant the accommodation they were able to grant without the power of note issue. That power was taken away by the levy of the 10 per cent tax on State bank notes, and the national banks of Virginia now have discounts of \$15,268,383, with \$15,347,290 of deposits and only \$1,993,442 in note issues. Alabama, in place of her \$13,500,000 of loans, has only \$6,570,755 and a note circulation of \$1,053,170, while South Carolina has seen her bank loans shrink from \$27,800,000 to \$5,943,367, with the shrinkage of the circulation of her banks from \$11,500,000 to the beggarly pittance of \$451,023.

THE BENEFITS OF BRANCH BANKING.

The bill reported embodies a recommendation that national banks be permitted to establish branches. Branch banking has not been familiar in this country since the liquidation of the successful State banks

of Ohio and Indiana at the beginning of the civil war. It is a system in almost universal use in other civilized countries where the methods of modern finance are well developed, and is almost essential to the economical use of capital and the distribution of credit. One of the most striking benefits of branch banking is that a branch may be created and maintained at a profit in a community without sufficient business for an independent bank. This would permit the extension of credit into many localities in the thinly settled portions of the country, where it is now impossible. Branch banking, moreover, permits the more ready flow of capital from communities where it is not needed to those where it is needed than does the operation of independent banks. It does not drain of money a community where money is needed, as would be the case with banks required to invest their deposits in securities, but carries into every community where the interest rate is high enough to attract money the amount which is there demanded and which is in less demand at other points. It often happens that one community may be saving largely, without expending in manufactures or other productive works, while another community may need the money thus saved for such works. Branch banking may be compared, in the fluidity which it gives to capital, to a connected series of tanks with open pipes between, while the possible borrowings of independent banks are more like a series of tanks whose pipes require to be opened when any change is sought in the level of the fluid.

Branch banking in connection with reasonable freedom of note issues has produced such favorable conditions in Scotland and Canada that interest rates are almost uniform throughout those countries, even in the most remote sections, and disclose none of the striking differences disclosed in this country between rates in the money centers and in certain remote sections. The ten chartered banks of Scotland have more than 900 branches, and the 38 incorporated banks of Canada have nearly 500, in each case for a population which is less than a tithe that of the United States. There can be no question in the opinion of your committee that the combination of the power to establish branches with the power to issue a reasonable amount in notes upon commercial assets would give a vigor to the credit system of this country which has been lacking under the present complicated and unscientific system of fixed Government issues, rigid security for bank notes, and the prohibition upon the power to establish branches.

THE ULTIMATE OPERATION OF THE BILL.

The bill reported by your committee looks ultimately to the elimination of Government paper money from circulation. Whether the process will be slow or rapid may depend upon the disposition of the banks and the turn of financial events. The reserve notes for which the banks are liable will be gradually reduced when the Government assumes the liability for such notes issued by failed and liquidating banks. With the withdrawal of bonded security also, the ultimate currency of the country will consist of gold and silver coin of full legal-tender power, and of notes issued by the banks under the provisions of the proposed bill. The growth in the wealth of the country and in its ability to maintain the expense of a metallic currency and to retain at home a large portion of the great gold production of the United States will tend to swell the gold resources of the country until gold coin is likely to become a common factor in daily exchanges among the people. This condition of affairs will operate at once to simplify and strengthen the

currency system and to increase the security afforded by the proposed law to the holders of bank notes. The banks will be required, when reserve notes and legal-tender notes have alike disappeared, to fulfill all requirements of law calling for lawful money by keeping gold and silver coin, and the present quantity of silver is likely to be so completely absorbed for retail exchanges that the bank reserves will consist almost entirely of gold. This being the case, it is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder. The bill reported by your committee proposes no change in existing laws regarding reserves against deposits. The cash reserves required in reserve cities at the date of the reports of the national banks to the Comptroller on December 15, 1897, were \$251,176,860, and the cash reserves required in country banks were \$55,940,589, making a total of \$307,117,449. The cash reserves held at the same date were \$410,568,427. These amounts are now held largely in legal-tender notes, but the abolition of such notes would leave a void which could be filled only by gold. If the circulation of the national banks therefore, without allowing for any growth in the meantime, should rise to the amount of their capital on December 15, 1897, which was \$629,655,365, the reserves held against deposits, with the requirement of the two special funds for current redemption and for the guaranty of the ultimate redemption of the notes, amounting to 10 per cent of the circulation outstanding, would in themselves exceed \$463,000,000 in gold, or nearly 75 per cent of the outstanding notes. It is upon the solid rock of metallic currency like this, with additional metallic currency in circulation among the people, that your committee propose to plant finally, by the gradual evolution of events, the monetary system of the United States. We believe that the arrangements proposed in the bill will accomplish this result gradually enough to avoid any shock to any vested interest, to the banks, or to their patrons of any class, but that it will be accomplished so certainly that the United States almost upon the enactment of a measure promising such results will find their credit greatly enhanced abroad and placed upon unassailable foundations at home.

JAMES T. McCLEARY,
GEORGE W. PRINCE,
JOHN MURRAY MITCHELL,
Special Subcommittee.

H. R. 10289, FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES,

MAY 11, 1898.—*Mr. Walker, of Massachusetts (by instruction of the Committee on Banking and Currency) introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To provide for strengthening the public credit, for the relief of the United States Treasury, and for the amendment of the laws relating to national banking associations.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That Issue and redemption division established. there is hereby created a division in the Treasury Department to be known as the division of issue and redemption.

There is hereby created a board consisting of three Board of comptrollers of the currency. members to be known as the comptrollers of the currency. The said board shall have the management of the division of issue and redemption, and shall take the place of the Comptroller of the Currency, performing all his duties as now defined by statute, and such others as are prescribed by this act. The office of Comptroller of the Currency is hereby abolished.

The members of said board shall be appointed by the President by and with the advice and consent of the Senate, and shall be removed only with the consent of the Senate for cause stated in writing. The term of office of said Comptrollers shall be twelve years: *Provided, however,* That the terms of the members of the board first appointed shall be four years, eight years, and twelve years, respectively. The member appointed for four years shall be known as First Comptroller and the other members as associate comptrollers. Thereafter the associate comptroller who shall have only four years to serve shall by succession become First Comptroller.

The First Comptroller shall be chairman of the board and shall have the custody of all the bullion, moneys, and securities held in the division of issue and redemption. He shall give to the United States a bond in the sum of two hundred and fifty thousand dollars, with not less than two responsible sureties, to be approved by the Secretary of the Treasury, for the faithful discharge of the duties of his office.

The salary of the First Comptroller shall be at the rate of eight thousand dollars per annum, and that of each Associate Comptroller shall be at the rate of seven thousand five hundred per annum.

Funds in division of issue and redemption.

SEC. 2. That to the division of issue and redemption shall be committed all functions of the Treasury Department pertaining to the issue and redemption of notes and certificates, and to the exchange of coins; and in the said division of issue and redemption shall be held the guaranty fund and the redemption fund of the national banking associations, and through it shall be conducted the operations of redeeming the circulating notes of national banking associations, as prescribed by law; and to this division shall be transferred all gold coin held against outstanding gold certificates, all silver dollars held against outstanding silver certificates, all United States notes held against outstanding currency certificates, and all silver dollars and silver bullion held against outstanding Treasury notes issued under the act of July fourteenth, eighteen hundred and ninety, and such amount of subsidiary and minor coins as the Secretary of the Treasury shall consider necessary for the issue and exchange of such coins, and the funds deposited with the Treasurer for the redemption or retirement of the circulating notes of national banking associations. All accounts relating to the business of this division shall be kept entirely apart and distinct from those of the other divisions of the Treasury Department; and the accounts relating to the national banking associations shall be kept separate and apart from all other accounts in said division of issue and redemption.

Reserve against U. S. notes and silver.

SEC. 3. That a reserve shall be established in the division of issue and redemption aforesaid by the transfer to it by the Treasurer of the United States from the general funds of the Treasury of an amount in gold, in coin and bullion, equal to twenty-five per centum of the amount, both of United States notes and Treasury notes issued under the Act of July fourteenth, eighteen hundred and ninety, outstanding, and a further sum in gold equal to five per centum of the aggregate amount of the coinage of silver dollars. This reserve shall be held as a common fund, and used exclusively for the redemption of said notes and in exchange for said notes and for silver dollars and subsidiary and minor coins, as hereinafter provided.

Duty of the Secretary of the Treasury to maintain such reserve.

SEC. 4. That it shall be the duty of the Secretary of the Treasury to maintain the gold reserve in the division of issue and redemption aforesaid at such sum as shall secure the certain and immediate redemption of all notes and exchange of all silver dollars presented, as hereinafter provided for; and for this purpose he may, from time to time, transfer to the division of issue and redemption any funds in the Treasury, not otherwise appropriated, in excess of an actual cash balance of fifty million dollars; and in addition thereto he is hereby authorized to issue and sell for gold, whenever it is in his judgment necessary to the ends aforesaid, and for no other purpose, certificates of indebtedness of the United States bearing interest at a rate not exceeding three per centum per annum, payable in gold coin at the end of five years, but redeemable in gold coin at the option of the United States after one year; and the proceeds of all such sales shall be paid into the division of issue and redemption for the purpose aforesaid.

SEC. 5. That the Secretary of the Treasury may, and he is hereby authorized to, exchange gold coin held in the general cash of the Treasury for United States notes or Treasury notes of eighteen hundred and ninety held in the division of issue and redemption; and he is hereby further authorized to exchange such notes of one denomination for a like amount in notes of another denomination, or notes of either kind for a like amount in notes of the other kind, and may replace notes worn or unfit for circulation by new notes of the same kind; but none of these exchanges shall at any time alter the amount of money to be held in the said division.

The Secretary of the Treasury may transfer funds.

SEC. 6. That the division of issue and redemption shall, at Washington and at such subtreasuries of the United States as the Secretary of the Treasury may from time to time designate, on demand:

Duties of division of issue and redemption.

First. Pay out gold coin for gold certificates;

Second. Pay out United States notes for currency certificates;

Third. Pay out gold coin in redemption of United States notes and Treasury notes of eighteen hundred and ninety;

Fourth. Pay out silver dollars for silver certificates of any denomination;

Fifth. Issue silver certificates of denominations of one dollar, two dollars, and five dollars, in exchange for silver dollars and for silver certificates of denominations above five dollars;

Sixth. Pay out gold coin in exchange for silver dollars;

Seventh. Pay out silver dollars held in the division of issue and redemption aforesaid, and not covered by outstanding silver certificates, in exchange for gold coin, United States notes, or Treasury notes;

Eighth. Pay out United States notes or Treasury notes, not subject to immediate cancellation, in exchange for gold coin;

Ninth. Pay out legal-tender money of the United States in exchange for subsidiary and minor coins presented in sums of twenty dollars or multiples thereof, and pay out subsidiary and minor coins in sums of twenty dollars or multiples thereof, in exchange for any legal-tender money of the United States;

Tenth. Pay out in redemption of national-bank notes the moneys in the division available for that purpose.

SEC. 7. That gold certificates and currency certificates shall, whenever presented and paid or received in the Treasury, be retired and canceled. All provisions of law authorizing the issue or reissue of gold certificates or currency certificates are hereby repealed.

Gold certificates and currency certificates retired and canceled.

SEC. 8. That when the division of issue and redemption shall have paid out gold coin in exchange for United States notes and Treasury notes presented for payment, it shall from time to time cancel such amounts of notes so paid as shall not exceed the amount of national reserve notes issued subsequent to the taking effect of this act.

Exchange of gold coin and United States notes and Treasury notes.

SEC. 9. That the Secretary of the Treasury may, in his discretion, from any funds in the general Treasury not set apart under section four of this Act or otherwise appropri-

United States notes may be transferred for cancellation.

ated, transfer to the division of issue and redemption any United States notes or Treasury notes which, on such transfer, could then lawfully be canceled under the provisions of this Act if they had been redeemed on presentation; and when so transferred the same shall be canceled. And the Secretary of the Treasury, whenever there may be United States notes or Treasury notes in the general Treasury which are not available as surplus revenue, and which upon transfer to the division of issue and redemption could then lawfully be canceled under the provisions of this Act, may exchange such notes with the division of issue and redemption for gold coin, and such notes shall thereupon be canceled.

United States notes redeemed in gold not to be paid out except for gold or United States bonds.

SEC. 10. That United States notes or Treasury notes once redeemed shall not be paid out again except for gold coin, unless there shall be an accumulation of such notes in the division of issue and redemption which can not then be canceled under the provisions of this act, in which case the Secretary of the Treasury shall have authority to invest the same, or any portion thereof, in interest-bearing obligations of the United States for the benefit of the gold reserve in the division of issue and redemption, such obligations to be held in the aforesaid division, subject to sale at the discretion of the Secretary of the Treasury for the benefit of the said reserve in the said division of issue and redemption, and not for any other purpose.

No United States notes less than ten dollars.

SEC. 11. That no United States note and no Treasury note issued under the act of July fourteenth, eighteen hundred and ninety, of a denomination less than ten dollars shall hereafter be issued, and silver certificates shall hereafter be issued or paid out only in denominations of one dollar, two dollars, and five dollars against silver dollars deposited in the division of issue and redemption, or in exchange for silver certificates of denominations exceeding five dollars.

Silver certificates, one dollar, two dollars, five dollars.

Three classes of notes defined.

SEC. 12. That the circulating notes provided for in this Act shall consist of three classes, namely, national reserve notes, national bank notes, and national currency notes.

The words "national reserve notes," when used in this Act, shall be understood to mean notes issued to a national banking association in exchange for United States notes, and for whose current redemption in gold coin the banking association receiving the same shall be made immediately liable, and whose ultimate payment shall be made by the Government of the United States.

That the words "national bank notes," when used in this Act, shall mean circulating notes issued by national banking associations, and secured by deposits of United States bonds.

That the words "national currency notes," when used in this Act, shall be understood to mean circulating notes issued by a national banking association, and constituting a direct and ultimate liability of the said banking association, as provided in this Act.

Bank notes not to exceed capital of bank.

SEC. 13. That any national banking association, on complying with the provisions of this Act, shall, if its capital be

wholly paid up and unimpaired, be entitled to receive from the Comptrollers of the Currency national bank notes or national currency notes, or both, of the different denominations hereinafter specified (none, however, being less than ten dollars) in blank, registered and countersigned, as provided by law, to the amounts and in the manner following, and on the following terms and conditions, but in no case exceeding *in the sum of its bank notes and currency notes* the amount of such paid-up and unimpaired capital:

Subdivision A. That any national banking association ^{National re-} may deposit with the Treasurer of the United States, under ^{serve notes.} such regulations as the Secretary of the Treasury may approve, United States notes to an amount not exceeding its paid-up and unimpaired capital, and shall then be entitled to receive in exchange therefor from the Comptrollers of the Currency an equal amount of national reserve notes, of the kind and denominations described in sections twelve and fifteen of this Act.

United States notes received into the division of issue and redemption in exchange for national reserve notes shall be canceled as received.

Subdivision B. That upon the deposit by any national banking association of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one hundred and sixty of the Revised Statutes, as amended by the acts of June twentieth, eighteen hundred and seventy-four, and July twelfth, eighteen hundred and eighty-two, it shall be entitled to receive from the Comptrollers of the Currency national bank notes of different denominations in blank, as provided by this act, equal in amount to the par value of the bonds so deposited; and any national banking association now having bonds on deposit for the security of circulating notes less in amount than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled to receive, immediately upon its reorganization under this act, national bank notes to an amount which shall increase to the par value of the bonds the aggregate amount of circulating notes held by such association in consequence of the deposit of such bonds: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of sections fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the requirement of additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the national bank notes outstanding for which said bonds may be deposited as security. ^{National bank notes.}

Subdivision C. That any national banking association, ^{National cur-} having deposited with the Treasurer of the United States ^{rency notes.} United States notes and received in exchange therefor national reserve notes, shall be entitled to receive and issue, in addition thereto, an amount of national currency notes equal to the amount of national reserve notes received as aforesaid: *Provided, however*, That the amount of national currency notes thus issued shall not exceed the

amount of its national bank notes outstanding: *And provided further*, That the notes thus issued shall not exceed forty per centum of the paid-up and unimpaired capital of the bank, but an additional amount of national currency notes may be issued subject to the tax on circulation provided in section twenty-nine of this act, without any increase of the circulation secured by United States bonds and without taking out any additional reserve notes.

National currency notes paramount lien on all assets.

SEC. 14. That the national currency notes shall constitute a paramount lien upon all the assets of the association issuing such notes, after sufficient proceeds thereof shall have been applied to redeem in full the outstanding national bank notes.

Description of notes.

SEC. 15. That in order to furnish suitable notes for circulating the Comptrollers of the Currency shall cause plates and dies to be engraved, in the best manner to guard against counterfeiting and fraudulent alterations, and shall have printed therefrom and numbered such quantity of circulating notes in blank of the denominations of ten dollars, twenty dollars, fifty dollars, one hundred dollars, five hundred dollars, one thousand dollars, and ten thousand dollars as may be required to supply the associations entitled to receive the same.

Each national reserve note shall be in the same form and contain the same statements as the present United States legal tender notes, and in addition thereto shall express upon its back or reverse side the promise of the national banking association receiving the same to pay at the office of said bank, on demand, in gold coin, the sum specified on its face, which statement shall be attested by the signatures of the president or vice-president and cashier of such association.

Each national bank note shall conform as nearly as practicable, subject to the provisions of this Act, with the national bank notes issued prior to the passage of this Act, except that it shall express the promise of the association to pay it, upon presentation at the office at which it was issued, in gold coin of the United States or national reserve notes.

Each national currency note shall express upon its face the promise of the association receiving and issuing the same to pay, upon presentation at its office, the specified amount on demand, in gold coin of the United States or national reserve notes, attested by the signatures of the president or vice-president and the cashier or assistant cashier of such association; it shall also bear upon its face the statement that it is issued in accordance with the provisions of this Act, which statement shall be attested by the written or engraved signature of the First Comptroller of the Currency, and shall bear such devices and other statements and be in such form as the Comptrollers of the Currency shall, by regulation, direct.

No circulating notes shall be issued to or by any national banking association other than those described in this Act.

Legal status of notes.

SEC. 16. That national reserve notes issued to any national banking association, as defined in this Act, shall

be a full legal tender at their face value for all debts, public and private, except duties on imports and interest on the public debt, and shall be available for use in the reserves of any national banking association.

Every national banking association formed or existing under this Act shall take and receive at par national bank notes or national currency notes issued by any lawfully organized national banking association.

No national banking association shall count or report any of its own national bank notes or national currency notes as a part of its cash or cash assets.

SEC. 17. That each year after the expiration of four years from the passage of this Act the Comptrollers of the Currency may, from time to time, and under regulations to be prescribed by them, reduce the amount of the United States bonds required to be deposited under the provisions of this Act by one-fourth of the amount so required, and from and after the expiration of eight years from the passage of this Act no such bond deposits shall be required; and any national banking association having at any time bonds of the United States deposited with the Treasurer in excess of the amount required by law to be at such time deposited may withdraw the whole or any part of such excess: *Provided, however,* That such decrease in the amount of bonds required to be deposited shall not of itself in any way interfere with the amount of circulating notes previously issued by said banking association: *And provided further,* That nothing herein contained shall be construed to authorize or permit the withdrawal of bonds required to be deposited under the provisions of section fifty-one hundred and fifty-three of the Revised Statutes of the United States as security for the safe-keeping and prompt payment of the public moneys deposited with any national banking associations.

Reduction of bond deposits required.

SEC. 18. That no national banking association which shall be organized within eight years after the passage of this act shall be required, preliminary to commencing business, to deposit any greater amount of United States bonds than it would then be required to have on deposit if it had been organized immediately after the passage of this act.

Bonds required during eight years.

SEC. 19. That after so many United States notes have been canceled and destroyed, as herein provided, that in the judgment of the Comptrollers of the Currency no more of such notes are available for use as a basis for the issue of circulating notes, the deposit of such United States notes as provided in section thirteen of this act shall no longer be required; but the Comptrollers may require any national banking association thereafter organized to obtain from the division of issue and redemption reserve notes in the manner provided in section twenty of this act. When in the judgment of the Comptrollers no more national reserve notes are available for such use, the taking out of such reserve notes, as provided in sections thirteen and forty of this act, shall no longer be required, and national banking associations shall then be entitled to receive

Currency notes finally without taking out reserve notes.

national currency notes to the amount which they would have been entitled to receive if such United States notes or reserve notes were available for such use.

Withdrawal
and redistribution
of reserve
notes.

SEC. 20. That the Comptrollers of the Currency may from time to time, under regulations to be prescribed by them, withdraw from circulation national reserve notes; but such withdrawals shall be first from those banks having such reserve notes in excess of forty per centum of their capital. Thereafter such withdrawals shall be so made as to equitably adjust the respective holdings of national reserve notes of the several banks. The national reserve notes so withdrawn shall be canceled and destroyed; but the Comptrollers of the Currency are hereby authorized to issue, in exchange for gold coin, to national banking associations, now existing or hereafter organized, national reserve notes to an amount not exceeding in the aggregate the amount of national reserve notes so canceled and destroyed.

Whenever there shall be any funds in the Treasury available as surplus revenue, the Secretary of the Treasury may transfer the same to the division of issue and redemption, and if there are no United States notes or Treasury notes in the division of issue and redemption subject to cancellation, the Comptrollers of the Currency shall thereupon withdraw national reserve notes and cancel and destroy the same in the manner and to the amount that they would have canceled United States notes under the provisions of this act. National reserve notes so withdrawn and canceled shall not be reissued as provided in the preceding paragraph: *Provided*, That any decrease in the amount of reserve notes consequent on the withdrawal provided for in this section shall not of itself interfere with the amount of circulating notes to which any banking association would otherwise be entitled.

Reduction
of
circulation.

SEC. 21. That any national banking association desiring to reduce the volume of its national-bank notes or currency notes may do so by depositing with the assistant treasurer in charge of the division of issue and redemption a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes and sending such redeemed notes to the Comptrollers of the Currency, with the request that they be canceled; and the First Comptroller of the Currency may carry to the credit of any national banking association, or reimburse to it, the excess of either the bank-note redemption fund or the bank-note guaranty fund, or both, above the amount required by this act to be held against outstanding circulation.

Clearing-house
districts.

SEC. 22. That the said Comptrollers of the Currency shall divide the United States into clearing-house districts, and each national banking association organized under this act which shall have taken out for issue any national currency notes shall belong distinctively to some one clearing-house district; and the number of such district shall be plainly and prominently printed upon the said national currency notes issued by it.

Every association located outside of a clearing-house city shall arrange with some national banking association

in the clearing-house city of the district to which it belongs for the current redemption of its national currency notes.

No national banking association shall pay out over its own counter any of the national currency notes issued by national banking associations belonging to clearing-house districts other than its own, unless the association issuing the same shall have established an agency for the redemption of its notes in the clearing-house city of said district.

SEC. 23. That every national banking association shall at all times keep and have on deposit with the division of issue and redemption for the purpose hereinafter specified a sum in gold coin equal to five per centum of its outstanding circulation of national currency notes. The amount so kept on deposit shall constitute a fund to be known as the "guaranty fund," which fund shall be held for the following purpose, and for no other, namely:

Whenever the Comptrollers of the Currency shall have become satisfied by the protest or the waiver and admission specified in section fifty-two hundred and twenty-six, or by the report provided for in section fifty-two hundred and twenty-seven, of the Revised Statutes of the United States, that any association has refused to pay any of its circulating notes on demand, they shall direct the redemption of its national currency notes from the guaranty fund aforesaid, and the redemption in gold coin of the United States from the reserve fund in the division of issue and redemption of the national reserve notes issued to it. After the failure of any national banking association to redeem any of said notes shall have been thus ascertained the bonds deposited by it with the Treasurer of the United States shall be sold as provided by law, and the proceeds of such sale shall be applied first to the redemption of the notes for which they are held, and the balance, if any, shall be paid into the guaranty fund, so far as may be necessary to provide for the final redemption of any other outstanding notes of such bank.

The comptrollers of the currency shall forthwith collect, for the benefit of said guaranty fund, from the assets of the bank and from the stockholders thereof, according to their liability as declared by this act, such sum as, with the bank's balance in the guaranty fund as aforesaid, shall equal the amount of its national currency notes outstanding. And for this purpose the United States shall, on behalf of the guaranty fund, have a paramount lien upon all the assets of the association; and such fund shall be made good out of such assets in preference to any and all other claims whatsoever, except the necessary costs and expenses of administering the same.

All national reserve notes so redeemed shall be canceled and destroyed, and all national bank notes and national currency notes so redeemed shall be held by the Treasury Department in the division of issue and redemption until the conclusion of the proceedings of liquidation of said bank, and shall thereupon be canceled and destroyed.

The provisions of sections fifty-two hundred and twenty-six, fifty-two hundred and twenty-seven, fifty-two hundred

and twenty-eight, fifty-two hundred and twenty-nine, fifty-two hundred and thirty-four, and fifty-two hundred and thirty-seven of the Revised Statutes shall be applicable in the case of the failure of any national banking association to redeem in compliance with law the national reserve notes issued to it.

Assessment in case of deficiency in bank-note guaranty fund.

SEC. 24. That whenever the Comptrollers of the Currency shall ascertain what deficiency, if any, exists between the aggregate collection for the benefit of the guaranty fund in the case of any failed bank and the amount of its national currency notes redeemed and to be redeemed from the said fund, he shall assess such deficiency upon all the national banks in proportion to their national currency notes outstanding at the time of the failure of such bank, said assessment, however, not to exceed in any one year one per centum of the amount of such circulation of the several banking associations, respectively.

Guaranty fund may be invested in obligations of the United States.

SEC. 25. That the Comptrollers of the Currency be, and they are hereby, authorized, in their discretion, to cause to be invested in any interest-bearing obligation of the United States, at a price not greater than a premium of six per centum, any portion of the guaranty fund hereinbefore provided for; and such securities shall be held and disposed of for the benefit of such fund.

Interest to constitute fund supplementary to bank-note guaranty fund.

SEC. 26. That all interest accruing from the investment of any portion of the aforesaid guaranty fund, and all funds received in payment of the taxes on circulation provided for in this act, shall be held in the division of issue and redemption in gold coin or in some interest-bearing obligation of the United States, and shall be supplementary to the guaranty fund, each banking association being credited with its proper share thereof.

Redemption fund.

SEC. 27. That the fund of five per centum of outstanding national bank notes required to be kept on deposit by every national banking association for the current redemption of the circulating notes of such association shall be required to be equal to five per centum of the national reserve notes issued to it and of its national bank notes outstanding, and shall be in gold coin of the United States; and the Comptrollers of the Currency shall have authority to provide for the redemption of said national bank notes and national reserve notes at any or all of the subtreasuries of the United States. Said notes shall be paid in gold coin of the United States, and shall thereupon be returned to the banks to which they were originally issued, subject to the limitations in sections twenty and twenty-three.

Liability of United States for redemption.

SEC. 28. That so much of section three of the act of June twentieth, eighteen hundred and seventy-four, entitled "An act fixing the amount of United States notes, providing for a redistribution of the national bank currency, and for other purposes," as reads "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, to the Treasurer of the United States, the same shall be redeemed in United States

notes," be amended to read: "And when the circulating notes of any such associations, assorted or unassorted, shall be presented for redemption in sums of one thousand dollars, or any multiple thereof, at the Treasury, or at such subtreasuries as may be designated by the Comptrollers of the Currency, the same shall be redeemed in gold coin of the United States. But nothing in this act contained shall be construed to impose upon the United States any liability for the redemption of the notes of any national banking association, beyond the proper application of the proceeds of the bonds and of the redemption and guaranty funds deposited with the division of issue and redemption and the enforcement of the remedies by this act provided."

SEC. 29. That every national banking association shall at all times have on hand, in gold coin of the United States, an amount equal to at least fifty per centum of the cash reserve required by law to be held against deposits: *Provided*, That nothing in this section, except as expressly provided, shall be construed to alter or in any way affect the provisions of existing law governing the maintenance of reserves.

One-half of cash reserves to be held in gold.

No contribution to the guaranty fund provided for in section twenty-three of this act shall be counted by any national banking association as a part of its lawful reserve.

SEC. 30. That when the amount of the national currency notes of any national banking association issued under this act shall, together with its national-bank notes outstanding, exceed eighty per centum of its capital, every such national banking association shall pay, on or before the last day of every month, to the division of issue and redemption a tax imposed at the rate of one-half of one per centum per month upon the average daily amount of said national currency notes in circulation in excess of eighty per centum of its capital stock, and which shall not have been returned to the comptrollers for cancellation or covered by an equal amount of gold coin deposited with the First Comptroller for the retirement of such notes.

Tax on circulation.

SEC. 31. That every national banking association shall, within five days from the first day of each calendar month, make a return, under the oath of its president or cashier, to the Comptrollers of the Currency, in such form as they may prescribe, of the average daily amount of its national-bank notes and national currency notes in circulation during the calendar month next preceding; and every such association shall, before the last day of such calendar month, pay to the division of issue and redemption, in lawful money, the full amount of the tax imposed in section thirty of this act; and whenever any association fails to pay the taxes imposed by this act, the sums due may be collected in the manner provided for the collection of taxes, or said First Comptroller may reserve the amount so due out of the interest as it may become due on any bonds deposited with him by such defaulting association; and while such default continues no further amount of circulating notes shall be issued to such defaulting association.

Reports on circulation and collection of taxes.

Tax on franchise.

SEC. 32. That every national banking association shall pay to the Treasurer of the United States each half year, in the months of January and July, on or before the thirtieth day thereof, a tax of one-eighth of one per centum upon the value of its franchise, as measured by the aggregate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. But in the case of any national banking association taking out reserve notes this tax shall be remitted, at the rate of one-half of one per centum per annum, on the amount of the reserve notes issued to it and outstanding. The taxes thus paid to the Treasurer of the United States shall be held as a separate fund for paying the expenses of the office of the Comptrollers of the Currency and the expenses of issuing and redeeming the several classes of notes as provided in this act. And the surplus, if any, shall be covered into the Treasury of the United States as a miscellaneous receipt. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this act.

Banks going into liquidation.

SEC. 33. That every bank going into liquidation, voluntary or involuntary, shall, prior to the payment of its creditors other than noteholders, and the distribution of any of its assets to its shareholders, deposit with the First Comptroller gold coin of the United States to such an amount that its total deposits of such gold coin shall equal the full amount of its outstanding national currency notes and its assessments provided for by this act.

Capital required.

SEC. 34. That section fifty-one hundred and thirty-eight of the Revised Statutes of the United States be amended to read as follows: "No association shall be organized under this title in a city the population of which exceeds fifty thousand inhabitants with a less capital than two hundred thousand dollars. No association shall be organized with a less capital than one hundred thousand dollars, except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Comptrollers of the Currency, be organized in any place the population of which does not exceed six thousand inhabitants, and that banks with a capital of not less than twenty-five thousand dollars may, with the approval of the Comptrollers of the Currency, be organized in any place the population of which does not exceed three thousand inhabitants."

Branch banks authorized.

SEC. 35. That it shall be lawful for any national banking association to establish branches under such rules and regulations as may be prescribed by the Comptrollers of the Currency.

Bank notes not payable by United States.

SEC. 36. That so much of section fifty-one hundred and eighty-two of the Revised Statutes of the United States as provides that the circulating notes of national banking associations shall be received at par "for all salaries and

other debts and demands owing by the United States to individuals, corporations, and associations within the United States, except interest on the public debt and in redemption of the national currency," be, and the same is hereby, repealed.

SEC. 37. That the examination of the affairs of every ^{Examination of banks.} national banking association authorized by existing laws shall take place at least twice in each calendar year, and as much oftener as the Comptrollers of the Currency shall consider necessary in order to furnish a full and complete knowledge of its condition; and the person making such examination shall have power to call together a quorum of the directors of such association, who shall, under oath, state to such examiner the character and circumstances of such of its loans or discounts as he may designate; and from and after the passage of this act all bank examiners shall receive fixed salaries, the amount whereof shall be determined by the Secretary of the Treasury; but the expense of the examination herein provided for shall be assessed by the Comptrollers of the Currency upon the associations examined.

SEC. 38. That no association shall hereafter make any ^{Loans or gratuities to examiners forbidden.} loan or grant any gratuity to any examiner of such association. Any association offending against this provision shall be deemed guilty of a misdemeanor, and shall be fined not more than one thousand dollars and a further sum equal to the money so loaned or gratuity so given; and the officer or officers of such association who shall make such loan or grant such gratuity shall be likewise deemed guilty of a misdemeanor, and shall be fined not to exceed five hundred dollars. And any examiner accepting a loan or gratuity from any association examined by him shall be deemed guilty of a misdemeanor, and shall be fined not more than five hundred dollars and a further sum equal to the money so loaned or gratuity given, and shall be forthwith dismissed from the service.

SEC. 39. That the Comptrollers of the Currency, in ^{Extra reports provided for.} addition to the reports provided for by existing laws, shall have authority to call for such other reports, regular or special, as he may deem advisable; and such reports shall be rendered in such form as the Comptrollers may prescribe; but nothing herein contained shall be construed to require the publication of such additional reports by each association in the manner prescribed for other reports now rendered.

SEC. 40. That after the passage of this act no national banking association shall be granted an extension or renewal of its charter, and no national banking association shall be granted a certificate of organization, unless such association shall have taken out in the manner prescribed herein an amount of national reserve notes equal to at least twenty-five per centum of its capital, subject to the exemptions provided in section nineteen of this act. ^{Reserve notes required on organization.}

SEC. 41. That any national banking association heretofore organized may, at any time within one year from the passage of this act, and with the approval of the Comptrol- ^{One year for reorganization.}

lers of the Currency, be granted, as herein provided, all the rights and be subject to all the liabilities of national banking associations organized hereunder: *Provided*, That such action on the part of such associations shall be authorized by the consent in writing of shareholders owning not less than two-thirds of the capital stock of the association. Any national banking association now organized which shall not within one year after the passage of this act become a national banking association under the provisions of this act, and which shall not place in the hands of the Treasurer of the United States the sums hereinbefore provided for the redemption and guaranty of its circulating notes, or which shall fail to comply with any other provision of this act, shall be dissolved; but such dissolution shall not take away or impair any remedy against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

State banks
may reorganise
under this act.

SEC. 42. That any bank or banking association incorporated by special law of any State, or organized under the general laws of any State, and having a paid-up and unimpaired capital sufficient to entitle it to become a national banking association under the provisions of this act, may, by the consent in writing of the shareholders owning not less than two-thirds of the capital stock of such bank or banking association, and with the approval of the Comptrollers of the Currency, become a national bank under this system, under its former name or by any name approved by the Comptrollers. The directors thereof may continue to be the directors of the association so organized until others are elected or appointed in accordance with the provisions of law. When the Comptrollers of the Currency have given to any such bank or banking association a certificate that the provisions of this act have been complied with, such bank or banking association, and all its stockholders, officers, and employees, shall have the same powers and privileges and shall be subject to the same duties, liabilities, and regulations in all respects as shall have been prescribed for associations originally organized as national banking associations under this act.

Extension of
powers of banks.

SEC. 43. That section fifty-one hundred and thirty-six of the Revised Statutes is hereby amended by inserting after the word "discounting," in the seventh clause relating to incidental powers, the words "buying, selling," so that such portion of said clause will read as follows: "By discounting, buying, selling, and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt."

Modification of
act for extension
of corporate ex-
istence.

SEC. 44. That so much of section nine of an act entitled "An act to enable national banking associations to extend their corporate existence, and for other purposes," approved July twelfth, eighteen hundred and eighty-two, as reads as follows, "And no national bank which makes any deposit of lawful money in order to withdraw its circulating notes shall be entitled to receive any increase of its circulation for the period of six months from the time it made such

deposit of lawful money for the purpose aforesaid: *Provided*, That not more than three millions of dollars of lawful money shall be deposited during any calendar month for this purpose: *And provided*, That the provisions of this section shall not apply to bonds called for redemption by the Secretary of the Treasury, nor to the withdrawal of circulating notes in consequence thereof," be, and the same is hereby, repealed; and the Comptrollers of the Currency are hereby authorized and directed to have prepared and keep on hand, ready for delivery on application, blank notes to such an amount as he may deem advisable for each national banking association having circulation.

SEC. 45. That nothing contained in this act shall be construed to alter or affect any vested rights of property or contract, or any penalties incurred before the taking effect of this act, or any part of it. Vested rights preserved.

SEC. 46. That all provisions of law inconsistent with or superseded by any of the provisions of this act be, and the same are hereby, repealed. General repealer.

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STRENGTHENING THE PUBLIC CREDIT, ETC.

JUNE 15, 1898.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. McCLEARY, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 10289.]

The Committee on Banking and Currency, having had under consideration House bill 10289, respectfully report as follows:

The purposes of this bill, as declared in its title, are the strengthening of the public credit, the relief of the United States Treasury, and the amendment of the laws relating to national banking associations. The bill is framed to accomplish the first two of these results without contracting the currency, without the issue of interest-bearing bonds, and without cost to the Treasury of the United States. The protection of the Treasury from demands for gold and from the necessity for issuing bonds is accomplished by imposing upon the national banks the current redemption of the Government notes. The amendment of the national banking laws is intended to afford a test, in a conservative and limited manner, of the system of basing note issues upon the commercial business of the country, with the purpose of affording in the near future a sufficient supply of currency in every part of the country at all seasons of the year, extending credit accommodations, and thereby reducing the rate of interest to borrowers.

The first eleven sections of the bill relate to operations of the Treasury; the remaining sections cover amendments to the national banking act.

WORK OF THE TREASURY DIVIDED.

The bill divides the operations of the Treasury. The fiscal operations of collecting revenues and disbursing them for Government expenditures are left as at present, but a new division is created, to be known as the division of issue and redemption. This division is to be under the charge of three comptrollers of the currency, who take the place of the present Comptroller and assistant comptroller. All matters relating to the issue, redemption, and exchange of currency, whether coin, Government notes, or bank notes, are intrusted to the division of issue and redemption. The Secretary of the Treasury is authorized to transfer to it all funds in excess of a cash balance of \$50,000,000 and all gold and silver coin and bullion now held in the Treasury for the purpose of redeeming United States notes, Treasury notes, and certificates. The Secretary of the Treasury is also authorized to transfer

to this division from time to time such surplus revenues as the Treasury may contain, and to issue short-term Treasury certificates, if necessary, for the sole purpose of replenishing the reserve.

The division of issue and redemption is required to redeem United States notes and Treasury notes in gold, to exchange gold coin for silver dollars and silver dollars for gold coin or other lawful money; to redeem silver certificates in silver dollars, and to make other ordinary exchanges of currency. United States notes redeemed in gold are, from time to time, to be canceled. The division must maintain a gold reserve of 25 per cent of the outstanding United States notes and Treasury notes and 5 per cent of the silver dollars which have been coined.

THE EXCHANGE OF THE GREENBACKS.

The present outstanding issues of United States notes known as "greenbacks" will cease to be a burden upon the Treasury for redemption in gold, so far as they are exchanged by national banks for national reserve notes.

National reserve notes are a new form of currency provided by the bill, in place of the existing greenbacks. They are not, properly speaking, bank notes. They are Government notes whose current redemption is provided for by the banks. They are legal tender and are intended for circulation as currency or for use in the reserves of the banks in exactly the same manner as the existing greenbacks. National reserve notes are to be issued to any national bank to any amount not exceeding its paid-up capital, upon its surrender to the Treasury of an equal amount of greenbacks.

The United States notes thus received are canceled and destroyed. The banks taking reserve notes are required to contribute to the current redemption fund held in the Treasury 5 per cent of the amount of their reserve notes in gold coin, and to replenish this reserve whenever it is reduced by the redemption of the reserve notes.

The money in circulation is not reduced by any of the preceding provisions. National reserve notes take the place of the greenbacks for which they are exchanged, and gold coin takes the place of greenbacks which are directly redeemed.

Existing national banks are required to take reserve notes to the amount of 25 per cent of their capital, but two privileges are offered the banks in compensation for their assumption of the current redemption of the notes. One of these is the privilege of issuing currency notes upon general assets, as set forth under the next general head. The second privilege is partial remission of the tax of one-fourth of 1 per cent per year levied by the bill upon the capital, surplus, and undivided profits of each bank. The remission thus allowed is at the rate of one-half of 1 per cent per year of the amount of reserve notes issued to the bank.

National reserve notes may be recalled from the banks to which they have been issued by the Secretary of the Treasury in equitable proportions and distributed to new national banks, which are required to pay for them in gold coin after the United States notes cease to be available. The withdrawal of reserve notes does not reduce the limit of currency based upon commercial assets.

BANK-NOTE CURRENCY.

National banks having charters under the old law may continue to issue currency as at present. The minimum amount of bonds required

upon the passage of the bill is the same as under existing law—25 per cent of the capital, but not exceeding \$50,000—but banks may issue notes upon all their bond deposits to the par value of the bonds (and to the full amount of their capital), instead of 90 per cent, as at present. Beginning four years after the passage of the act, any bank may withdraw the bonds deposited to secure circulation at the rate of 25 per cent of the required deposits per year, and may withdraw those in excess of the minimum requirement at any time.

The privilege of issuing currency based upon commercial assets, without the deposit of United States bonds, is granted to national banks to the amount of 40 per cent of their paid-up capital, but only upon condition that notes secured by bonds and national reserve notes are taken in equal amounts. Thus a bank organized under this bill having a capital of \$100,000 is required to take out \$25,000 in national reserve notes and to have on deposit in the Treasury \$25,000 of United States bonds, against which it may issue \$25,000 in national bank notes. It may also issue \$25,000 additional in such notes based upon commercial assets, and may increase such issues if it increases also its bond deposits and its holdings of reserve notes in equal proportions. This process may be continued up to the point where the amount of notes secured by bonds, the amount of notes not thus secured, and the amount of national reserve notes are each equal to 40 per cent of the paid-up capital, making an aggregate of \$80,000 in bank notes and \$40,000 in reserve notes.

When circulation is issued in excess of 80 per cent of the paid-up capital, exclusive of issues of reserve notes, the excess is liable to a tax of one-half of 1 per cent monthly. But bond-based notes may be issued to the full amount of the capital without any tax on them.

All paper money except silver certificates shall be in denominations of \$10 and higher. Silver certificates issued by the Treasury shall be in denominations of \$1, \$2, and \$5 only.

THE REDEMPTION OF NOTES.

The burden of the current redemption of paper currency rests upon the banks. They are required to redeem their reserve notes over their own counters, and to maintain in the Treasury a 5-per-cent gold fund for current redemption of the notes in gold. The reserve notes are guaranteed by the Government to be ultimately redeemed in gold from its own resources upon failure or liquidation of the bank to which they may have been issued. Reserve notes redeemed by the Government may, at its option, be reissued to new banks.

The current redemption of currency notes not secured by United States bonds may be provided for through clearing-house districts under regulations prescribed by the Comptrollers of the Currency.

The currency notes are redeemed, in case of failure of the issuing bank to redeem them, from a gold guaranty fund in the custody of the Secretary of the Treasury, known as the bank-note guaranty fund, which is made up by each bank which takes out circulation upon its commercial assets contributing in gold 5 per cent of its asset circulation. Upon the failure of a bank, its notes shall be immediately redeemed from this fund and the fund reimbursed from the assets of the failed bank. Bank notes form a first lien upon the assets and have behind them also the individual liability of the stockholders for assessment up to the amount of their stock. Should these sources fail to fully reimburse the fund, the Treasury may make an assessment

upon the national banks issuing asset circulation to reimburse it, but these assessments shall not in any one year exceed 1 per cent of the asset circulation.

MISCELLANEOUS PROVISIONS.

Existing national banks may continue to do business under their present charters upon acceptance of the new law, but must comply with the requirement for taking out 25 per cent of their capital in reserve notes.

Branch banks may be established in the discretion of the Secretary of the Treasury.

Stringent regulations are provided for the examination and conduct of national banks.

The reserve requirements in relation to banks are the same as under the present law, except that 50 per cent of the reserves required to be kept actually in the bank must be in gold.

Banks are required to pay a tax of one-quarter of one per cent per year upon their capital, surplus, and undivided profits. The existing tax of 1 per cent per year upon circulation is repealed.

NECESSITY FOR PROTECTING THE TREASURY.

The necessity of so protecting the Treasury as to strengthen the public credit ought not to be a subject of dispute among those familiar with the events of the last five years. The essential purpose of the bill in this respect is to relieve the Treasury from the burden of the constant redemption of Government paper money and to obviate the necessity of selling interest-bearing bonds running for a long term in order to obtain gold for the continued and repeated redemption of the notes.

By reference to Tables 2 and 3 in the appendix to this report, it will be seen that the redemption of United States notes during the years 1892 to 1897, inclusive, amounted to \$455,025,847, or more than \$91,000,000 a year. This annual average redemption amounted to almost the total of the gold redemption fund, thus requiring practically a complete replacement of the fund each year. This necessity resulted in the issue of long-term interest-bearing bonds, amounting to more than \$262,000,000.

It does not matter what view is taken of the responsibility for the condition in which the Treasury has been found during the last five years. If any political organization or any error of administration at the Treasury Department is responsible for these events, it only emphasizes the necessity of placing our currency system beyond the reach of political accidents. Our financial system should be such that no Administration, without radical change of law, should have the power to involve the commercial business of the country in disaster because the fiscal and banking operations of the Treasury might not be wisely conducted. This is one of the essential purposes of the bill reported by your committee—to separate the operations of the fiscal service of the Government from the operations of commercial banking.

There can be no question of the benefits to the Treasury and to the public credit in relieving the Treasury of the constant necessity of redeeming demand obligations. Such objections as have been made to methods heretofore proposed for terminating these conditions are, we believe, obviated by the plan herewith reported.

Your committee propose to relieve the Treasury absolutely of the obligation of finding gold for the redemption of a very large proportion of the

legal-tender notes, and we believe that the small amount of such notes left outstanding will be given such enhanced credit by the operation of this bill that they will never again become a menace to the public credit and never bring in question the ability of the United States to fulfill the mandate of the act of November 1, 1893—"the maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts."

EFFECTS OF DOUBT ABOUT THE PARITY.

The importance of maintaining unquestioned and unimpaired the parity of all our forms of money is such that it involves almost every transaction of life, and peculiarly the volume of business, the safety of investments, the value of pensions and insurance policies, and the legitimate profits of agricultural, industrial, and mercantile enterprises. From 1893 to 1896 the United States, by heroic efforts, succeeded in preventing any depreciation of their paper currency, but the mere suspicion of the possibility that such a depreciation might occur was among the potent causes of the shrinkage of values and the paralysis of industry.

Some conception of the effects of this uncertainty may be formed from the fact that the transactions of the New York clearing house shrunk from \$36,279,905,236 for the year ending October 1, 1892, to \$24,230,145,368 for the year ending October 1, 1894. The clearings throughout the leading cities of the country showed a shrinkage in the same period from \$61,017,839,067 to \$45,028,496,746. Figures like these measure, in some slight degree, the reduction in the volume of business, in the earnings of the people, and in the employment for labor. There can be no doubt, also, that the withdrawal of foreign capital as the result of like uncertainty regarding the maintenance of the parity of all our forms of money added to the tendency to panic by the persistent withdrawal of gold, and diminished the productive resources of the country.

HOW THE PARITY OF COINS IS MAINTAINED.

It is the permanent policy of this nation that the making of coins shall be vested exclusively in the Government. The Government makes the coins out of several metals, each designed to serve the people in the special way for which it is best fitted. The Government has declared itself in duty bound to preserve the parity of its coins.

How is the parity maintained? The value of the silver in a silver dollar is much less than the value of the gold in a gold dollar, yet a silver dollar will buy as much as a gold dollar will buy. Why?

There is a certain amount of money of small denomination absolutely needed by the people of the country for their ordinary retail transactions. Silver serves this purpose admirably. It has been found that so long as the limit is not exceeded there is comparatively little trouble in maintaining at a parity with gold the amount of silver legitimately demanded by business. In order that the business demands for silver may be fully met and satisfied, and yet that no more shall be forced into the channels of trade than is needed, our Government has adopted the following plan:

1. The coinage of silver is on Government account; that is, the Government controls the volume of the silver coinage.
2. In making payments for materials or services, and in the payment of obligations, it pays out as much silver as is desired. It also holds

itself ready to pay out silver in exchange for other forms of money. In these ways it gets silver into circulation, meeting in some measure the legitimate demands for such money.

3. The Government stands ready to receive silver at any time as the equivalent of gold in payments due to it. In this way, by indirect redemption in gold, the silver is kept in the minds of the people as the equivalent of gold, and at the same time a reservoir is provided for any surplus which the channels of trade may desire to rid themselves of. And, as has more than once been announced by the Treasury Department, and as provided in the bill herewith reported, the Government will, if necessary, give gold coin in exchange for silver coin.

The method by which the Government redeems its pledge to maintain the parity of the metals is, then, first, by so regulating the volume of silver coin in circulation as to meet as nearly as possible the demands of business, which are quite constant; and, second, by making silver coin indirectly or directly interchangeable with gold at the Treasury.

Recognizing it as part of the permanent policy of this country that the Government shall maintain the parity of its coins, the bill reported by your committee has sought to render the performance of this duty as safe and easy as possible. The bill provides that hereafter no United States note or Treasury note of 1890 or national bank note shall be issued in denominations of less than \$10, and that silver certificates shall be of the denominations of \$1, \$2, and \$5. This arrangement will give to silver, in the form of coin and certificates, practically the whole field for use as the money of retail trade, thus making the demand for silver large and steady. By reference to Table 8 in the appendix the present actual demand for \$1, \$2, and \$5 bills can be seen. Careful computations show that by this arrangement nearly 95 per cent of all the silver coin now in the country may be given employment in the regular channels of trade. It is expected, therefore, that comparatively little silver will find its way to the Treasury, either on payment of dues or to be exchanged for gold, and that public dues will be paid almost entirely in gold. Thus the burden of the Government in maintaining the parity will be reduced to the minimum, while its ability to do so will be raised to the maximum.

THE DIVISION OF ISSUE AND REDEMPTION.

The gold reserve, held for the purpose of maintaining the parity of our various forms of Government coin and paper, has always been held in the general cash of the Treasury. This arrangement has long been deplored by thoughtful people, because it leaves this fund, a depletion of which would entail such direful consequences on the country, to the varying fortunes of revenue receipts. This fund was provided for a specific purpose, and should be held apart from the general funds of the Treasury. Then if there should be any trouble we shall know how to locate and correct it. Moreover, it is expected that under the operations of this bill the Treasury will be relieved from the burden of the current redemption of its demand notes, so that the reserve fund will, before long, be materially reduced. With the view, therefore, of separating the financial operations of the Government from its fiscal operations, the bill provides for a new division in the Treasury Department, to be known as the division of issue and redemption. To this division is assigned the duty of acting as custodian of the funds for maintaining coin parity and of the redemption and guaranty funds of the national banks, and by it all exchanges called for to accommodate the people in securing such form of money as will best serve their legitimate purposes, so far as this duty continues with the Government, shall be

made. In order that the exceedingly important work of this division, including the supervision of all the national banks, may be done most efficiently, the bill provides for a board of three comptrollers, with long terms and with the appointments so arranged as to secure skilled and experienced supervision and control.

THE DISADVANTAGES OF GOVERNMENT BANKING.

The issue of government paper to circulate as money is not approved by the experience of any civilized state. It is not necessary for your committee to refer to the notorious incidents of the French assignats, nor the discredited issues of our own country during the war of the Revolution. Cases less conspicuous are those of the Austro-Hungarian monarchy, which resorted to this method of finance in 1847 and gave forced legal-tender character to its treasury issues. The result was the perpetuation of a premium upon gold, which has not yet been terminated. The experience of the South American countries, if it should be presented by your committee in detail, would afford even more striking proof of the failure of governments to maintain their legal-tender paper currency at parity with the metallic standard.

The history of the world hardly affords an instance of the successful maintenance of government paper at parity with gold. The United States from 1879 to 1893 afforded the most successful illustration of this experiment, but this period was one of prosperity seldom impaired and of a rigid limitation of the note issues. When this limitation was removed by the act of July 14, 1890, providing for the issue of additional legal-tender Government notes for the purchase of silver bullion, the usual effects of a government paper currency were not long in showing themselves. Gold was largely expelled from circulation; doubt and distrust seized the markets, and the great loss inflicted upon the exchanges and upon the earnings of capital and labor foreshadowed in some slight degree the disaster which would have ensued with the actual suspension of the redemption of Government notes in gold.

Among the reasons that may be given against the issuance of Government demand notes to circulate as money are the following:

1. The original issue of such notes is always due to an empty or embarrassed national treasury. As a necessary consequence, the notes always depreciate in value, driving coin out of use and becoming themselves the everyday standard of value. This results in a seriously fluctuating standard,* demoralizing to all legitimate business and serving only the speculative and gambling elements, who find their profits in rapid fluctuations in prices.

2. The falling away from the coin standard may be only temporary. In that case the period of depreciation works a hardship on creditors, while the period of return to the coin standard works a hardship on those who have gone into debt during the existence of the paper standard.

3. The gathering of a redemption fund in coin for the purpose of bringing the paper up to the coin standard must be through increased taxation or through the issuance of interest bearing time obligations. This fact, together with the fact above referred to that the process of return to the specie basis works a hardship on debtors, always makes such return slow and difficult. In the nature of the case the condition of demoralization tends to perpetuate itself.

4. It is exceedingly difficult to hold Government currency up to the coin standard for any length of time, even after it has been brought

* For the variations in the value of the greenback before 1879, see Table 7 in the Appendix.

back to that standard. The maintenance of the necessary coin reserve is expensive. Its maintenance, too, depends in this country largely upon the views of the Executive and is always subject to the fortunes of revenue receipts. And in the case of our Government demand notes "redemption does not redeem." The notes are continually reissued. Moreover, the Government reserve commands few of the gains and is subject to all the losses of the ebb and flow of coin and bullion in international trade. So long as the Government has out notes receivable for customs and other public dues no one is bound to pay gold to the Treasury; so the flow of gold into the country to settle trade balances does not necessarily help the Treasury reserve. But whenever an adverse balance of trade requires the exportation of gold, the Government note becomes the efficient instrument for depleting the reserve.

5. The issuance of Government demand notes is continually liable to abuse. The first issue is always deprecated, even by its advocates, their only justification for it being its apparent necessity. Promise is always made, too, that the first issue will be the only one. Our first issue of \$150,000,000 of "legal tenders" in 1862 was thus justified, and the promise was made that this limit would not be exceeded; but a second issue to the same amount soon followed, and this was ere long followed by a third; and now there are those who advocate a new issue of \$150,000,000. Disaster in such a case seems to necessitate further issues, while, on the other hand, temporary success is used to justify them.

The burden of maintaining the parity of all our paper currency with gold coin should rest upon the banks of the country, whose facilities are natural, whose resources comprise in liquid form practically all the products of American labor, and whose relation to the public will compel them to maintain the parity of any notes they may issue with the standard of the country or go into bankruptcy.

The result would be that commerce and business of every kind would not be subjected to constant and serious shocks, as they are to-day, whenever there is either a fear that the Government may be unable to maintain the parity or a suspicion that the party in power, for political reasons, will not do so.

But even if Government paper currency were not open to the above objections, even if it could be made absolutely safe, the issuance of Government demand notes would not be the wise way of securing the necessary paper currency of the country. Among the reasons for this conclusion, two readily present themselves.

In the first place, the Government can not regulate the volume of its notes to meet properly the requirements of the country's business. The officers of the Government, chosen for political and not for business reasons, having functions that are civil and not commercial, can not know how much currency is needed. Moreover, the currency needs of the country vary greatly with the seasons and the localities, with the volume of business and the habits of people. A fixed amount is necessarily a wrong amount.

In the second place, the Government lacks the facilities for distributing its notes where they are needed for business purposes. It pays out money only for materials or for services. In other words, the needs of the Government and not the needs of business determine the time, place, and amount of its outlay.

As has been well said—

The Government bank has no depositors, and can not get its notes into circulation through depositors as business needs them. It has no automatic method of getting

information as to how much money is needed by trade, and could not act upon it if it had. The Secretary of the Treasury, ostensible manager of the bank, has his hands tied. The Government currency once out, stays out. It drifts away from the towns of the West and South to the great cities of the East, and stays there to breed speculation from unnatural plenty, while the farmers and traders of the prairies and cotton fields are suffering from contraction.—(W. C. Cornwell.)

The Government, not being in trade, being neither buyer nor seller, producing and owning none of the properties which enter into trade, and having no property or resources whatever except such as it takes from its citizens through taxation for its expenses of administration of whatever character, has no natural relation to the creation of a credit currency except to provide proper and effective legal remedies to safeguard it, and is not the proper party to issue it. Such an act is wholly foreign to its political functions, of which commercial operations are no part in theory or fact. (Jacob L. Greene.)

A DANGEROUS AND EXPENSIVE METHOD OF BORROWING.

It has thus been shown that the Government was not designed, nor is it in its nature fitted, to issue the paper currency of the country. It is now in order to show that the issue of demand notes by the Government is not a prudent or an economical method of borrowing.

In the first place, it is dangerous. The Government is a great corporation. Like those of any other body, its business operations are subject to the inexorable laws of trade. Its note is no more money than the note of any other responsible party. It is a promise to pay on demand. To keep the note good the promise must be kept. Being receivable for public dues, many of its notes are redeemed in that way. So long as the commercial skies are clear and public credit is good few of the notes will be presented for redemption in coin. As will be seen by Table 1 in the appendix to this report, the coin redemption of United States notes prior to 1892 was comparatively small. Even the gold required for export was furnished almost entirely by the banks. But from 1892 to 1897 the coin redemptions of the United States notes and Treasury notes were enormous. They exceeded even the great demand for gold for export, thus revealing the fact that the demands for redemption by our own people were very great. This enormous flood of demand almost swept away the fabric of our credit, both public and private, and was overcome only by the most herculean efforts. Although our skies are again clear, prudence dictates that we recognize that this danger is inherent in the very nature of Government demand obligations, and duty to the public requires that Congress take steps to prevent a recurrence of this danger to the Government and its citizens.

No prudent business man allows himself to issue a demand obligation unless he has on hand property which is immediately convertible into cash. And even then he will ordinarily prefer to pay a reasonable sum in the way of interest for the privilege of himself fixing the time for the payment of the principal. He knows that with demand obligations out he is liable to be called upon for payment at the very time when he is least able to make it, and that thereby he may either be driven into insolvency or be required to make such sacrifices of property as would far more than counterbalance any saving in interest.

In the second place, as the Government has found, the issue by it of demand notes, nominally noninterest bearing, is a very expensive form of loan. What are some of the items of this expense?

1. A small one is the cost of the paper, printing, bookkeeping, and handling the notes, which is about \$1,000,000 a year.

2. A reserve for their redemption must be maintained. The cost of carrying this sum each year amounts to nearly one-half of the interest saved on the notes.

3. From first to last, interest-bearing bonds amounting to \$11,000,000 more than the face of the notes have been sold for the purpose of securing and maintaining the fund needed to keep these notes at par. So that in fact their existence necessitates the payment of annual interest on a sum greater than their face.

4. In the nature of the case, sales of bonds to replenish the reserve must be made at the very time most disadvantageous to the Government. The demand for redemption is due to a loss of credit by the Government. This fact puts it to great loss in the sale of its bonds. For example, in the years 1893-1895 it was necessary for the Government to sell bonds to the amount of \$262,000,000. They sold for \$293,400,000. But had the credit of the Government not been impaired, had it been such as it was in 1890, for example, they would have sold for \$335,000,000. Here, then, was a direct loss of over \$40,000,000.

5. The existence of a large mass of demand obligations, which may come pouring in for payment at any time, hurts the credit of their issuer. To this rule the Government is no exception. The extra interest which the United States Government has had to pay for many years in consequence of the existence of its demand obligations has amounted to more than twice the face of the notes themselves.

6. Careful estimates show that the cost of the civil war was greater by from \$600,000,000 to \$900,000,000 by reason of their issue than it would have been if fought out on a specie basis, the purchasing power of the notes varying with their volume and varying even more with the varying fortunes of the war and of politics.

The total expenditures of the four years was \$3,352,380,410, of which it is safe to say \$2,500,000,000 consisted of purchases in the open market, when the greenback dollar procured (on the average) only 66 cents worth of property. In other words, we obligated ourselves for \$2,500,000,000, and got \$1,630,000,000 in actual value. The difference, \$870,000,000, is the unnecessary cost to the taxpayer caused by the use of a depreciated currency.*

These considerations amply warrant the crisp statement made in a recent speech by the distinguished Senator from Minnesota, Hon. Knute Nelson, when, speaking of the issue of these notes, he said: "Of all our war loans, from first to last, it was no doubt the most expensive. Its justification was that it filled a gap that could not have been easily supplied by a time loan."

A LOAN BY THE BANKS TO THE GOVERNMENT.

In dealing with the existing legal-tender notes of the Government, your committee have endeavored to adopt a system which would be subject to none of the criticism made against the issue of interest-bearing bonds or the taxation of the people for the payment of this demand debt. While the arguments are strong for the adoption of one of these methods of paying back to the creditors of the United States the money thus borrowed for the preservation of the Union, the system adopted is such as to continue to the Government all the benefits of the loan without any of the disadvantages of its character as a demand obligation. The proposed bill places upon the banks the burden of providing for the current redemption of the greenbacks.

* Horace White. A full statement of the question, carefully itemized, is given by W. C. Mitchell, in an article entitled "Greenbacks and the cost of the civil war," published in the Journal of Political Economy, University of Chicago, for March, 1897. And in the same journal for March, 1898, Mr. Mitchell has a very valuable article on "The value of the greenback in the civil war," in which he accounts for its variations in value.

The form of the proposition submitted by your committee makes that portion of the demand debt which is not now covered by gold in the Treasury a loan by the banks to the Government. This loan is made without interest and without any compensation to the banks except what is afforded them in getting their franchise as national banks and thus securing the power to issue a banking currency, which is granted in other sections of the bill. There is no other profit or return to the banks in thus carrying the nation's debt, except a small remission of the new franchise tax.

This policy is not without precedent in that of European governments, but the privileges granted by those governments are enormously greater, because they are granted to a single bank having a monopoly of all the note issues of the country. The Bank of France, for instance, makes to the Government a loan without interest, which has just been increased to 180,000,000 francs, or about \$35,000,000; but this loan is substantially offset by the deposits of the treasury with the bank, which amounted on January 7, 1898, to 212,268,560 francs, or 32,000,000 francs in excess of the entire sum advanced to the Government. The Government of Austria-Hungary has an advance from the Austro-Hungarian Bank amounting to about 75,000,000 florins, or \$30,000,000; but this is in process of annual reduction by the amount of the profits of the bank, charged as a Government tax, but actually employed for the reduction of the loan. These are illustrations of several similar cases, but they serve to show that no country imposes so heavy a burden upon its banks as this bill provides, unless under the pressure of dire necessity, as in the cases of the Governments of Spain, Portugal, and Italy.

The banks are required to redeem this debt of the Government now assumed by them upon precisely the same terms as the current redemption of their own notes while they are conducting a solvent banking business. It is only when, by the refusal to pay such notes, they become insolvent, that the Government recognizes again its demand debt and reassumes it for the complete protection of the holder of the note and for the benefit of the creditors of the bank by leaving the remaining assets unimpaired for the settlement of their just claims. The form of note thus assumed by the bank with the final redemption guaranteed by the Government combines the strongest of all resources for its ultimate payment. The note which it is proposed to issue under this bill in lieu of the Government notes is called the national-reserve note, a designation which may be taken to imply at once that it has behind it not only the banking resources of the issuing bank, but the reserve strength of the National Government, and also that it is peculiarly available for money reserves of all kinds. It is, moreover, a legal-tender note, whose parity with gold is assured so long as the banks maintain the parity of their own notes, and for whose parity the Government is also responsible, if it is conceivable that the Government should maintain specie payments while the banks were unable to do so.

NO CONTRACTION OF THE CURRENCY.

While the bill thus greatly lightens the burden of the Treasury under any conceivable conditions, there will not be any contraction of the existing circulation. The gold now kept in the gold reserve of the Treasury might be paid out in the redemption and cancellation of legal-tender notes, but this operation would simply substitute gold for paper in the circulation, and would not in any degree diminish the legal-tender

money in the hands of the people. A legal-tender note, under the bill proposed by your committee, might cease to be a menace to the Treasury either by exchange for gold and final cancellation, by the assumption of its current redemption by the banks, or by the enhanced value which it would obtain from the fact that quantity was diminished; but the legal-tender currency in the hands of the people would not be reduced by either of these operations.

Your committee believe that the system of dealing with the Government notes provided in this bill removes every possible objection which has heretofore been made to relieving the Treasury of their redemption, except such objections as may be based upon the desire that the Government shall issue an unlimited volume of forced legal-tender paper which is not redeemable in coin or capable of being maintained at any fixed value.

THE BANKS COMPELLED TO PROVIDE GOLD.

The purpose and effect of the proposed bill is to throw upon the national banks the entire burden of finding gold for the notes of the country. There is no doubt of their ability to do this. Even if at any time the banks should all suspend specie payment, the result would not be so disastrous as would even the threat of such a thing as specie suspension by the Government under existing arrangements. In the first place, the failure of any bank or set of banks to pay their obligations would not involve the standard; and in the second place, the consequent depreciation of the notes would not be so great nor would the term of suspension be so long as in the case of Government suspension.

But there is no doubt of the ability of the banks to maintain specie payments. In the first place, they now hold in their vaults a vast quantity of gold—\$240,000,000 in round numbers—much more than is required by the provisions of the bill. In the second place, whenever greenbacks are presented for redemption the gold proceeds will soon go to the bank vaults for safe-keeping. In the third place, the bulk of the vast gold product of the country will naturally, for the same reason, find its way to the banks as the place of deposit. In the fourth place, the banks can, through interest rates in seaboard cities, in large measure, regulate the flow of gold in international trade, providing for all legitimate export demands, but so protecting our reserves as to maintain our national credit. England and France and Germany are without gold mines, yet they have no lack of gold. And in the fifth place, if necessary, the banks can borrow gold. Thus the banks have every resource that the Government has, and through their business relations possess the means of protecting themselves and the business world that the Government has not.

The system proposed by your committee provides at the same time an adequate method of obtaining from the banks gold legitimately needed for export without exposing the country or the United States Treasury to the alarm and convulsions which have attended gold exports during the last five years. The banks are required by the bill to maintain the 5 per cent current redemption fund in gold. Redemption agencies are authorized to be established at the various subtreasuries and at other places, and such an agency would undoubtedly be established by the Comptrollers of the Currency at New York.

The actual process of obtaining gold for export would be that any strong bank patronized by exporters would turn over the gold from its own vaults or from its reserves in the New York clearing house. It

is impossible to evade this obligation. In case of an effort to evade it the process would be that a bank would deliver its own notes to a depositor, making a draft upon his account. He would be under no obligation to accept them, but if he did accept them, he could at once present them for redemption in gold or in reserve notes. The bank, still wishing to evade the payment of gold, might then tender him reserve notes issued either by itself or by other banks. But these reserve notes would be redeemable out of the gold-redemption fund maintained by the banks, and it would only require their presentation at the subtreasury to secure their redemption from this fund.

The banks whose reserve notes were thus presented would then be called upon by the Comptroller to make good the deficiency in their coin in the redemption fund and the burden of obtaining the gold would fall directly upon them. This being the case, it would be immaterial to the people of the United States whether one bank by paying its own notes or reserve notes shifted the burden of maintaining the redemption fund upon another bank. The banks in any case would bear the whole burden and would be compelled to so adjust their loans as to secure favorable exchanges, prevent the undue export of gold, and maintain the credit of the business community and of the Government.

THE ORIGIN OF MONEY.

All trade is essentially barter—the exchange of goods for goods. In primitive society this exchange was direct, each person parting with that of which he had a surplus and taking in return that of which he had need. But this direct exchange presupposed the meeting of two persons each of whom had a surplus of just what the other wanted in kind and quantity. This double coincidence was not always easy to find; so difficult, in fact, as to discourage all effort at exchange, or to make the search for it extremely wasteful of time and energy.

By and by men observed that there was some article that was in such general demand that in exchange for it one could, at any time, get any other thing that he might desire. This object of general desire gradually became the medium through which exchanges were effected. A person having a surplus of anything, even if he had no unsupplied want, would take this medium of exchange, knowing that for it he could at any time supply his wants.

The invention of this medium of exchange was a great step onward. It economized the time and energy of the people to such an extent that it enabled them with the same effort to produce many more goods, made it easier to supply their wants, and thus materially bettered the condition of all. And from that day to this every economy in methods of exchange (like economies in manufacture) has more and more placed the good things of earth within the reach of the mass of the people, and thus elevated the standard of living.

The things exchanged possessed value. The common medium of exchange came to be the thing with whose value the value of every other commodity was compared; that is, it became the standard of value. In other words, the same commodity served both as the standard of value and as the medium of exchange or currency.

In the various stages of social advancement different commodities, each suited to the times, were used as money. Thus, in the hunting stage, skins of animals were so used; in the pastoral stage, cattle; in the agricultural stage, corn, tobacco, and tea. Later came the use of metals, iron and copper, silver and gold. In each stage of advancement

progress was made by discarding the less convenient and desirable form of money for that which better served the purpose. Gradually, too, progress was made in the methods of using money. When first used as money the metals passed by weight. (As a memento of that time we have the word *expend*, which means literally to *weigh out*.) Later, for the purpose of saving the trouble of weighing, and to remove the risk of fraud through the misuse of alloys, coining was invented.

SOME FUNDAMENTAL PRINCIPLES.

The purpose of your committee in reciting the foregoing is simply to illustrate a few principles important to be borne in mind in this connection.

1. There is a marked distinction between the use of money as a standard and its use as a medium of exchange or currency. In the former case it is used to compare or measure values; in the second it is used to transfer them. There is the same distinction to be made in these two uses of money that there is between the use of the scales for weighing a ton of coal and the use of the wagon in which the coal is delivered to a customer. Or, to use another illustration, and in some respects a better one, there is the same distinction between the use of money as a standard of value and its use as a medium of exchange that there is in the use of a bushel basket to measure grain and the use of that basket to carry the grain to the manger. Here the same thing may be used for either purpose. So it was originally with money. But we have learned that while there can be only one standard of size for a bushel we may carry bushels of grain in baskets or in sacks or wagon boxes. So it is with money. While in the nature of things there can be only one standard of value, the forms of money as a medium of exchange are many, including gold, silver, nickel, copper, and paper.

2. A farmer would not think of keeping on hand as many standard bushel measures as he had bushels of grain to measure. He needs only enough to serve as an occasional test of correctness. And then for ordinary purposes he will suit his convenience by using sacks or other things. So with money. A nation would find it wasteful to have on hand a sufficient amount of standard money to effect all of its exchanges. It finds it more economical to keep on hand enough of the standards of value to afford from time to time the proper tests of the instruments of exchange, and then suit its convenience in the forms of its currency.

3. Governments adopt, they do not originate, standards. As has been seen by the brief sketch of the origin of money, its form was a matter of selection by those having exchanges to make, that this selection varied with the circumstances, and that the idea of a standard came from custom without any edict of the governing power. So it has always been; so it will always be. The edict of the government follows, it does not precede, the common individual judgment. When it fails to do so its decrees are futile.

4. The purpose of coinage is simply to make safe and convenient what would otherwise be unsafe and inconvenient. Coinage is not necessarily and probably was not originally a function of government. The word *dollar* is itself a memento of coinage by private individuals. The first thalers or dollars were made at a private mint in Joachimsthal, in Bohemia, in 1581. In those troublous times princes and kings were playing fast and loose with their coinage, were putting into the coins less than the weight of metal certified by the stamp, and compelling people by legal-tender edicts to accept them as of full weight. The great

merit of the Joachimsthal mint was that the pieces or coins made by it were of uniform goodness. Thus they attained great popularity and wide use, and the thaler came to be known and prized all over Europe. In the early days of California, when it was more inaccessible than the uttermost part of the earth is now, private coinage was general. Individuals and companies refined gold and ran it into pieces of uniform size, stamping on each piece its weight, the pieces thus made being voluntarily and freely used as money. That is the essence of coining. Putting the metal into the form of disks or bars neither adds to nor subtracts from its value; it only adds to the convenience of using the metal. The only reason why, by common consent and then by constitutional and legal provision, we have the Government do the coining and forbid anyone making coins resembling those made by the Government, is to guarantee uniformity of goodness, thereby facilitating trade. The fact that the Government certifies the weight and fineness of the metal contained in the disk does not add anything to its value, except as putting the metal into pieces of convenient size and shape renders it easier and safer to use, and it thereby passes more promptly from hand to hand. Even those who know nothing of metallurgy or assaying feel safe in accepting the metal whose weight is certified by one known and trusted by all.

5. Every proper and safe method of facilitating exchanges, every improvement made, is in the interest of all, contributes to the public welfare.

ORIGIN AND PURPOSE OF BANKS.

It is risky to keep money in one's house; the money may be stolen. It is also risky to carry money around; it may get lost. For each person to build a strong room for the safe-keeping of his money would be too expensive. But by cooperation many may do cheaply what each alone would find a burden. So a number of traders united in erecting a building with a strong room in it. This they put in charge of one or more trusty men, and to it each evening they brought the receipts of the day. Such was undoubtedly the origin of banks. They were at first simply places for the deposit of money for safe-keeping.

After a while some bright merchant discovered that he need not go to the bank to get the money that he might desire to pay out. He could save time and trouble by giving the payee an order (or check) on the bank for the money. With this check the payee could get the money at the bank. Or, if he did not need the money for immediate use, he could deposit the check at the bank and get the amount transferred from the merchant's credit to his own, thus acquiring the right to order the payment of money to some other person or persons; or he could transfer the check itself to someone else with whom he had dealings. In any of these cases the check served the purpose of money; and inasmuch as it saved the time of counting and the trouble and risk of handling the actual money, the check became and still remains not only a great convenience but also a great economizer.

In course of time it was observed that only a part of those who received checks demanded the money on them, and that, therefore, by keeping on hand a quarter or less of the money deposited all the checks could be promptly paid on presentation. The managers of the bank therefore authorized the man in charge of the bank, in whose honesty and good judgment they had confidence, to lend out to responsible persons a part of the deposits. Thus arose banks of loan and discount.

Some of those who wished to borrow did not care to carry coin

about, but were going among strangers who might not be willing to take their checks. Such persons the bank could accommodate by giving them the promises of the bank to pay the money on demand. The bank being widely known and largely trusted, its promises (or bank notes) passed readily from hand to hand, performing admirably, by the free choice of those interested, all the work of money as a medium of exchange. Thus arose banks of issue.

It is vitally important at this point that it be remembered that a large fraction of all deposits are not deposits of money. In this fact lies the most valuable of all the many services rendered to the public by banks. Not only does a bank gather up the scattered sums of money in the community, furnishing their owners with a safe place of deposit, and securing to the community the use of money that would otherwise lie idle, but under a proper banking system the bank can monetize every product of hand and brain, facilitating and cheapening both production and exchange, and thus bettering the condition of every honest, industrious, and prudent man in the community. Suppose, for example, that a manufacturer of wagons has used up his capital erecting his factory and buying materials. He needs money to employ men to make the wagons. He goes to the bank; the cashier knows him to be honest and capable; knows that he wants the money to produce something of use to the community, something which the people will need and buy; sees that he has the plant and material; the banker lends him the money, thus giving him the means of making the product, furnishing useful employment to perhaps hundreds of people. The manufacturer deposits his note, getting in return a credit on the books of the bank, against which he can check for the payment of his men, the shipment of his goods, etc. As pay for the goods begins to come in he deposits the checks, drafts, or money that he receives. In this way he accumulates means to pay his note when it becomes due. The original deposit was his note—not money, but the representative of his raw material to be wrought by the skill of himself and his men into articles of use for the community. On the basis of property owned and skill possessed, the manufacturer secured the funds with which to work the transformation. This monetizing of products, this vitalizing of energy, is the preeminent service rendered by the bank.

BANK CHECKS AND BANK NOTES.

Bank checks and drafts and bank notes constitute by far the most important part of our currency. On January 1, 1898, the total volume of our circulation was as follows:

Gold coin and certificates	\$584, 126, 049
Silver coin and certificates	503, 906, 973
Government demand notes.....	409, 239, 863
Total Government currency	1, 497, 272, 885
National-bank notes	223, 827, 755
Deposits subject to check *.....	3, 210, 705, 758
Total bank currency.....	3, 434, 563, 513

The volume of bank currency, therefore, was more than double that of the non-bank currency. Moreover, it did a vastly larger proportion of the actual work of commerce. Careful investigations have been made

* In national, state, and private banks. But this does not include deposits in savings banks, or any other deposits not subject to checks.

from time to time by the Comptroller of the Currency to determine the actual usefulness as currency of our various forms of money. The last investigation was made on July 1, 1896. It showed that of every \$100 of business transacted through the banks the different forms of money were used in the following proportions: Gold, 60 cents; silver, 50 cents; greenbacks, silver certificates, Treasury notes, and national bank notes, \$6.30; bank checks, drafts, etc., \$92.50. And the clearing-house returns of the country show that the bank checks and drafts constitute a currency which performs transactions in the exchange of property amounting to over \$50,000,000,000 a year. And a great many checks, estimated at \$20,000,000,000, are used as currency each year, which do not go through the clearing houses.

It is very important to note in this connection that a bank check and a bank note are practically the same thing. Both are obligations of the bank payable on demand, and both, without being legal tender, perform admirably the work of money as a medium of exchange. But, notwithstanding this identity, there is a great difference in the amount of service rendered, that of the check and draft being scores of times that of the note. This is partly due to the superior safety of payment by check or draft by reason of their being collectible only by the person named as payee and upon his indorsement, which indorsement becomes a receipt. But another element which reduces the serviceableness of the bank note is the legal limitations put upon its issue.

No one would object to a bank's receiving a deposit of \$100,000, payable on demand by means of checks. Why, then, should anyone object to the bank's giving to the depositor, instead of a check book, its promises to pay the bearer on demand, if these bank notes will better serve the legitimate purposes of the depositors? For it should be understood that they may better serve him. Which of these two forms of the bank's demand obligation will best serve in a given case or community depends on the location of the place where the given business is to be transacted, the habits of the community, and the relations of the parties. Every person who accepts a check does so by reason of his faith in the person from whom he accepts it. This implies a knowledge of the character and standing of that person. But many times we must deal with strangers. In dealing with them we must use some form of currency whose value does not depend on anything personal to them or to us. In that case the bank note is much more serviceable than the check. Again the habits of the community have much to do with the relative serviceableness of the check and the note. In old, thickly settled communities, where banks have long existed and where the people have acquired the habit of making deposits and paying by checks, the use of checks will cover all large payments and will even be the medium used in more than half of the retail transactions. But in the new and sparsely settled parts of the country, where banks are fewer and less accessible, and where the people have not become habituated to deposits and checks, the bank note will be found the more serviceable form of using the bank credit. It seems reasonable, therefore, that the law governing the operations of banks should be of such character as will make it practicable for banks in all sections of the country to provide the form of currency which will enable them to best serve the communities in which they are located. As Professor Charles F. Dunbar well says:

It is of great consequence that the medium used should be made up of the kinds most convenient for the use of the community, and divided between those kinds in the proportions most convenient. This question of proportion is one which no com-

bination of counselors, public or private, can determine. * * * Left to itself, the country settles this problem of proportion in a natural way—by the demand which each individual using a credit currency of any kind will make for notes or for a deposit account, as his special conditions may require. But in order that this natural process should go on easily and without inconvenience to the community, it is requisite that the banks or bankers with whom individuals deal when obtaining loans or receiving payments should have the ability to respond to demand in either form; in other words, that the creditor of the bank or banker should be able to receive the evidence of his claim in the one form if he expects to use it in large operations or in a closely settled community, or in the other if in small operations or where hand-to-hand dealings are the rule, and that the lender should find his profit equally in responding to either demand. It is only by being allowed to take one or the other form, as occasion requires, that a given mass of bank credit can perform its functions with the maximum of public advantage.

WHY THERE ARE LIMITATIONS ON BANK-NOTE ISSUES.

This brings us to the question, Why should there be any limitations on the power of a bank to issue that particular form of obligation expressed by a bank note? The law puts no limit on the amount for which a bank may become liable through demand by check; nor does the law attempt to limit the right of any individual to make such number and amount of notes as he chooses and pass them to any person willing to receive them; nor does it limit the right of a number of persons to unite in making such number of notes as they choose and using them in the purchase of whatsoever they desire from persons willing to accept them. Why, then, should the public, through law, interfere with the freedom of banks to issue such number of notes as they may deem desirable? The chief purpose is not to protect the holder from loss, because he accepts the bank note voluntarily, the notes not being legal tender, and he could have his recourse through the courts in case of default, the same as against the maker of any other note that he might accept. Indeed, until well along in this century the issuing of notes was regarded as inherent in the nature of a bank. The reason for the limitation and regulation of bank-note issues was well expressed by former Secretary of the Treasury Charles S. Fairchild, in his statements before the Committee on Banking and Currency last January (Hearings, p. 92), as follows:

I conceive that the way Government gets its right to interfere as to these demand obligations is this: They were found to be a most useful instrument in transferring property and services from man to man. To attain their highest usefulness, however, it was necessary that they should have great rapidity of movement, and in order to attain that rapidity of movement the receiver of them must be saved the necessity of looking to the credit of the issuing party, whoever he might be.

Therefore Government properly came in and devised a system by which they shall be issued and then certifies that they are issued under that system. So that a man who takes a note, if he knows how good the system is, can know how good the note is, and he does not have to stop to look further. He has to know one large thing instead of a vast number of smaller things.

Now, that is the same service exactly that the Government performs when it coins pieces of bullion. In the case of silver another service is performed, because with the silver dollars the Government has put a certain degree of promise behind them; but take a piece of gold—and it would be the same way with silver if we had the free coinage of silver with no Government credit behind it—and what the Government does in that instance is simply to take the piece of bullion from the owner of it and put it in a certain form and certify that it is such a quantity and of such a quality. The Government does not contribute any capital; it does not put anything into the bullion transaction; it does not confer much benefit upon the owner of the bullion, because he could put the weight and the quality on it if the Government did not do that, but it does confer a very great benefit upon the people who want to use that bullion for the transfer of their property and services, in that it saves them the trouble of assaying and weighing.

The Government does the same thing with a bank note. It does not put any capital into it. It does not give it any credit, except that it provides a system and certi-

less that it is issued under that system. The Government performs a great service in that way, of course, to the people who want to use bank notes, and in both cases it performs a great service to the whole community in that it diminishes the amount of bullion and the number of bank notes necessary to carry on the transactions of the community, because it gives them both greater rapidity of movement and causes less of them to be required for the same volume of transactions.

If that is a true statement of the Government's functions in regard to bank notes, it has always seemed to me we should approach the subject with the fact in view that the duty of Government is not to repress these things, but to go on in the direction of the principle, the philosophy, which has given it its right to interfere at all, and simply provide for the greatest facility of movement, that being dependent on the goodness of the system that it devised, and, having done that, leave the people to take care of themselves.

MERITS OF OUR PRESENT BANK-NOTE SYSTEM.

In considering a proposal to change our system of bank-note issues, it is proper that we candidly examine the system that we have, recognize its merits and preserve them, discover its faults and correct them.

Under our present system, bank notes can be issued only by banks operating under authority granted by the United States, and which are therefore called "national banks." The issue of bank notes by other banking institutions is not forbidden by law; but the United States levies a tax at the rate of 10 per cent per annum on all bank-note issues other than those of national banks, the effect of which tax is to prohibit all other bank-note issues. A national bank may be organized in any part of the United States by any number of persons, not less than five. The minimum capital required is \$100,000 actually paid in, except that in places of less than 6,000 inhabitants national banks may be established with a capital of \$50,000. The persons desiring to establish a national bank must satisfy the Comptroller of the Currency that they are proper persons to be intrusted with this authority, that their financial standing will warrant him in granting it, and that the capital is all paid in.

As an antecedent condition to the transaction of business, a national banking association is required to buy in the market United States bonds to an amount the face value of which shall not be less than 25 per cent of the capital of the bank, but not exceeding \$50,000. The entire capital may be invested in these bonds. Upon depositing these bonds with the United States Treasurer at Washington an amount of notes bearing the promise of the bank to pay the specified sum on demand may be issued to it equal to 90 per cent of the par value of the bonds so deposited, and not exceeding 90 per cent of the capital of the bank. Upon being signed by the proper officers of the bank, these notes may be used as currency. These notes are not a legal tender in payment of debt, except to national banks, all of which are bound to accept them at par; and they are receivable in payment of dues to and from the United States, except duties on imports and interest on the public debt. They are redeemable in lawful money at the United States Treasury, each national bank being required to keep in the hands of the United States Treasurer for this purpose a fund in lawful money equal to 5 per cent of its circulation.

The present system had its origin during the civil war, the prime object of the Government being to make a market for its bonds. Though the system thus had its origin, not in the demands of trade, but in the exigencies of the Government, it has in some respects served the purposes of trade excellently. In the first place, the notes issued under this system are safe. No one has ever lost a dollar through having in his possession a national bank note. They are good, whether the bank

by which they were issued and whose promise they bear remains solvent or not. Moreover, they are equally good all over the country. A note issued from a bank in Maine is good in California. Before the war bank notes were issued under State regulation. As might be expected, the regulations varied, those of some States being wise and those of other States being very unwise. As a consequence, some of the notes were perfectly good and others were almost or quite worthless. And even those that were good locally, where the methods and standing of the issuing bank were known, were rarely good outside of the State or section where they were issued. The present system has demonstrated that it is possible, without granting a monopoly of the note-issuing power to one bank, to have bank notes which are absolutely safe from loss to their holders through any mismanagement of the bank, and uniformly good all over the country. And the people of the United States would not and should not approve of any system which would fall short of the present standard in these respects.

DEMERITS OF OUR PRESENT BANK-NOTE SYSTEM.

But the system of bond-based bank-note issues is by its very nature open to serious objections.

The vital thing to remember in considering this subject is that currency is simply an instrument of trade, a means of effecting exchanges; that it has no other use or purpose, and that therefore its volume should depend upon and be responsive to the demands of trade. But in this vital matter a system of bond-based bank-notes signally fails.

In the first place, the volume of notes under this system is largely determined by the state of the Government's credit. The issue of notes is conditioned upon the prior purchase of Government bonds. If, then, the credit of Government be low, the bonds bear a high rate of interest and yet can be bought for a small price. Under such circumstances it will be profitable to buy the bonds and issue notes upon them. But as the credit of the Government improves the bonds bring a higher price and pay a lower rate of interest. Then it becomes unprofitable to invest in the bonds and issue the notes. As proof of the correctness of this reasoning, attention is invited to Table 5, in the appendix to this report, which shows the volume of national-bank notes in circulation each year since the establishment of the system. After the close of the war, when the process of paying the bonds or refunding into lower-rate bonds (indicative of improved public credit) was well under way, the volume of national-bank notes grew steadily smaller, shrinking from \$339,081,799 in 1873 to \$122,928,085 in 1890.

In the second place, the higher the prevailing commercial rate of interest the less likely are bond-based notes to be issued. For example, suppose that the market price of United States bonds bearing 4 per cent interest is 120. In that case, by investing \$120,000 a bank can buy \$100,000 of bonds. On the deposit of these bonds it can get \$90,000 in circulating notes. But it is required to put up with the United States Treasurer a redemption fund equal to 5 per cent of its circulation. In this case the redemption fund would be \$4,500. So that instead of having \$120,000 to lend the bank would find itself with only \$85,500 to lend, or \$35,500 less than if it had not taken bank-note circulation. Now, if the local rate of interest be low, somewhere near that paid by the bonds, the bank may find it reasonably profitable to take out the circulation. But the higher the local rate the less inclined the bank will be to diminish the amount of its loanable funds by investment in low-rate bonds. As proof of the correctness of this reasoning

attention is invited to Table 6 in the appendix, showing the extent to which national banks in different sections of the country issue currency in the form of bank notes, as computed from data in the report of the Comptroller of the Currency for 1897.

The first group consists of the banks, 132 in number, having an aggregate capital of \$17,530,250, in three typical New England States. The amount of bank-note circulation that could be issued on the minimum required deposit of bonds was \$3,650,625, while the amount of circulation actually taken out was \$10,036,585. The next group consists of three Western States—Nebraska, Kansas, and Missouri (outside of St. Louis)—with 264 national banks, having an aggregate capital of \$25,457,100. The amount of circulation that could be issued on the minimum required deposit of bonds was \$4,681,597, while the amount actually taken out was only \$5,518,237. The next group consists of six Southern States, with 102 national banks, having an aggregate capital of \$10,779,000. The amount of circulation that could be issued on the minimum required bond deposit was \$2,273,400, while the amount actually taken out was only \$2,568,317. That is, in the New England group, where the local rates of interest are low, the amount actually taken out was three times the minimum, while in the Western and Southern groups, where the local rates of interest are high, the banks scarcely exceeded the minimum.

In other words, to those sections of our country where capital is plentiful and where the rates of interest are low, our present system gives increase to abundance; while to those sections where rates of interest are high, showing the need of loanable funds, the system gives little relief. In order to secure bank notes for circulation a community must invest more capital in bonds than it gets back in the form of bank notes—that is, a community is required under our present system to send away a part of its loanable capital for investment at a low rate. But this is precisely what a community having inadequate loanable capital can not afford to do. And if a portion of the loanable capital be sent away for this low-rate investment the rate of interest on the remaining funds must be raised.

In the third place, as a corollary of the above, a system of bank-note issues based on Government bonds can not be responsive to seasonal demands. In the agricultural communities of the West and South the demand for currency during the three or four months in which the bulk of the crop is being moved is very much greater than it is during the rest of the year; and to be of most service the funds must be in the form of coin or bills, preferably the latter. These extra funds the banks in the vicinity ought to be able to provide through increased issue of bank notes based upon the values, promptly realizable, of the crops themselves; but to this seasonal demand the local banks are under the present system utterly unable to respond. To secure the funds the buyers of the products must go to the money centers and borrow. Their demand for funds must there meet and compete with other demands of the same kind, and the consequence is that they can command the necessary funds only by offering a higher rate of interest. This, of course, means that so much less can be paid for the products, and in so far as the rate is unnecessarily high there is an unnecessary loss to the producer. "The means to move the crops should be furnished by the crops themselves," and under a proper system of bank-note issues they will be so furnished, to the mutual advantage of the producer and the banker.

In the fourth place, as a second corollary of the above, bank-note

issues can not under the present system respond promptly to emergency demands for note currency. A good illustration of the delay in responding to such demands was furnished in the summer of 1893:

The New York banks held on June 1, 1893, a surplus of \$21,000,000 in excess of their legal reserve. At that time the volume of national-bank notes outstanding was about \$177,000,000. By the 1st of August extraordinary demands for currency had drawn down the reserve to \$14,000,000 below the legal minimum, and the outstanding notes were only about \$5,000,000 more than on June 1. By September 1, however, when the reserves were but \$1,500,000 below the minimum, when the urgency was past and currency was once more comparatively abundant, the notes had begun to expand and had already reached \$199,800,000, subsequently rising to \$209,300,000 on November 1, notwithstanding the continued decrease in the demand for them.¹

Having been called into existence not by the requirements of trade but by the exigencies of the Government, being based on the debt of the country instead of its wealth, on what our people collectively owe instead of what they individually own, our present system of bank-note issue is not a true bank currency, and is therefore unresponsive to the demands of trade, coming forth when and where there is little demand for it and responding slowly or not at all when and where the need is urgent. And the trouble is inherent in the system; it can not be remedied except by a change of basis. The one merit of our present system, and it is a very great one, is that the notes are good, and uniformly good, all over the country. Can a system be devised whereby this essential quality can be retained completely, giving us a currency absolutely good from Maine to California, yet ample in quantity to meet all the needs of business in every section and at all seasons, at the minimum of cost and with a maximum of efficiency? Your committee believe that the answer to the foregoing question is yes, and that the bill herewith reported embodies the plan whereby that result can be reached.

WHAT IS PROPOSED.

The wealth of a country should be the basis of its currency. The basis is furnished by commerce itself. The products of the labor of the people represent all there is of financial value (wealth) in a nation. Commercial banks, the friends of all classes of people, the longest-lived and soundest institutions known to history, are the custodians of the representatives of this wealth in the shape of commercial assets, and commercial assets, all time proves, are the highest form of security for note circulation. Notes issued by properly capitalized and inspected banks, to the extent of a portion of their paid-up capital, and made a first lien upon their assets, not specially pledged but held as general security, have behind them the only truly scientific basis for circulation in a country like ours, the basis being the product of the energy, the muscle, and the brain of our people. Trade consists in the exchange of these products. Banks are the natural facilitators of such exchange. They hold, in short, bills receivable, the paper representatives of the products themselves. As by the increase of products trade increases, so, scientifically and naturally, there is produced in an increase of assets a larger basis for note circulation. The means to move the crops are furnished by the crops themselves. What better basis for bank notes can be created than these quick assets? Such bank notes, under regulations for daily redemption, modestly and automatically retire when they are not needed.

Graft this principle upon the national system. Abolish the oversecurity and the tax on circulation. Drop the United States bond special security. Adopt the general security principle, which is in such successful operation in Canada, making the note a first lien on all assets, including double liability of stockholders, limiting its issue to a percentage of the capital, with a guaranty fund, and other minor details to be arranged.

These words of Mr. W. O. Cornwell, of Buffalo, N. Y., in an address delivered in Chicago in 1893, are a prophecy of the spirit, motive, and

¹ Report of the Monetary Commission.

method of the bill herewith reported. The bill proposes to recognize the principle that "the wealth of the country should be the basis of its currency," and that the special bond security should be abolished.

Such a currency, made absolutely safe, based upon and springing out of the production of the people, always proving responsive to their requirements and adequate to their needs, is truly a currency of the people and will serve them better and protect their interests more fully than any other can, provided always that it is kept as good as gold in their hands, by current redemption in that metal which is used as the standard of value by all the civilized world.

The purpose of this measure is to give to the cotton and wheat grower, the cattle-feeder, and the manufacturer a lower rate of interest when its full advantages are attained, in every part of the United States, and a currency ample for the legitimate requirements of the farm and the factory. It applies to our present banking system the principal of credit currency, which has been in practice in Scotland for more than two hundred years, and been aptly described as follows:

"It has provided Scotland with an elastic currency adapted to the conditions of her industries and adequate in volume to their changing needs. It has afforded an opportunity for entering business to thousands of poor but honest men and enabled them to lay the foundation of a comfortable home, and, in many cases, of a fortune."

"It has convinced the people so conclusively of the value and safety of the banking currency system that no serious panic has ever lasted beyond a few days or has ever affected any of the banks except those which were justly the subject of distrust." (Conant's History of Modern Banks of Issue, p. 155.)

THE NECESSITY OF CAUTION IN MAKING CHANGES.

While the principles thus set forth are the fundamental principles which should govern the issue of currency, your committee have been conscious of the fact that the United States has been long accustomed to a different system of currency and that radical and rapid changes might induce anxiety and disturbance. We have therefore proceeded with an abundant measure of conservatism in proposing to apply these principles of currency to existing conditions in the United States. We have provided in the bill herewith reported a system which departs only by degrees from the existing system, and which at nearly every step leaves the field open for the competitive trial of the new system along with the old. Such a trial, it is reasonable to believe, would result in adherence to that which proves safest and most advantageous to the community.

Wide discretion is given to the Comptrollers of the Currency to arrest any undue expansion of bank-note circulation and to refuse to admit to the new system banks which do not prove their solvency and conservatism. The new system, moreover, is to be substituted only over a series of years for the old, and if at any step the substitution appears to involve danger either to the national credit or to safe rules of banking, it will be in the power of Congress to arrest the change before it has attained a dangerous momentum. Your committee, reinforced by the study of the banking history of all nations, so firmly believe that the new system will vindicate its soundness and benefits to the country that they have so adjusted the provisions of the proposed bill that the relations of the new to the old during the transition period will be essentially a question of the survival of the fittest.

GOOD FEATURES OF PRESENT LAW CONTINUED.

It is believed that every good feature of our present system is preserved. No change is made except where it is imperatively demanded in the public interest. The great merit of our present system is the uniform goodness of all the bank notes. "Every note of every bank, no matter what the bank, where it is, or what its condition, being secured in precisely the same manner and degree, passes current everywhere without a thought of discrimination." The bill continues this plan of having all the bank notes "secured in precisely the same manner and degree." This necessitates the continuance of the policy of restricting the note-issuing power to banks operating under authority of the General Government; that is, all bank notes will be issued by "national" banks. As now, these banks may be organized in any part of the United States by any number of persons not less than five. For the benefit, however, of communities of small population, it is provided that where the population is less than 3,000 the capital required shall be only \$25,000. Persons desiring to establish a national bank must, as now, satisfy the Comptrollers of the Currency that they possess the requisite character and financial standing and that the capital is fully paid in. As now, the engraving and printing of the notes will be done by the United States Government, the expense being paid by the banks, respectively. This will enable the Comptrollers of the Currency to control the volume within the limits provided by law. It will at the same time preserve the uniformity of appearance of the notes (thus, as now, facilitating their currency), and the superior execution and special paper will continue to practically prevent counterfeiting. The inspection will continue to be by officers of the United States, but new safeguards have been added to render the supervision even more effective than it has been.

On account of their demonstrated safety, the bond-based notes are thought well of everywhere. And in some parts of the country, where there is a surplus of accumulated capital seeking investment even at a low rate, these notes may be issued at a reasonable profit. It seemed only right, therefore, as well as prudent, not to put anything in the way of the continued use of this class of notes where they are desired, until by the payment of our national debt the basis will of necessity be removed. And all the conditions of their issue remain the same as now, except that notes are issued to the par of the bonds and to the full amount of the capital, instead of being limited to 90 per cent as now, and the tax on circulation is removed. The 90 per cent limit was imposed at a time when the credit of the Government was low and it was deemed advisable to provide in this way a margin of safety. As the national bonds now bear a premium, and in view of the specific recommendation in last annual message of the President, it seemed that the least that should be done would be to allow the issue to par.

THE NEW PLAN FOR BANK-NOTE ISSUES.

Some of the arguments in favor of a currency based upon commercial assets, flexibly adjusted to the demands of business, have already been set forth. The present national bank-note system, under which the notes are secured by a deposit of interest-bearing bonds with the United States Treasurer, does not, as already pointed out, afford this responsiveness to the demands of business. On the contrary, under the high premiums which now have to be paid for the bonds, the remarkable phenomenon is presented that as interest rates rise in the money mar-

ket, indicating the scarcity of the circulating medium, it becomes less profitable to issue national bank circulation and more profitable to loan capital directly, without putting it into the form of circulating notes. In this respect, as in respect to the accumulation of money in the Treasury in times of prosperity and large revenues, our present currency system works in the wrong direction, fettering trade when it most needs freedom, and flooding the circulation with redundant paper when the markets are most sluggish.

For this reason we believe that the currency should be based upon the commercial assets of the banks, and that there should be no specific pledged security except a safety fund of such amount as, from the experience of our own and other countries, would protect the note-holder against any possible loss. Your committee, however, mindful of the unfamiliarity of this proposition in the United States within the last thirty years, propose that no bank shall issue circulating notes which does not have on deposit as many bonds as are now required by law, receiving back its notes in the form of the present national-bank note to an amount equal to the face of the bonds. It must also deposit an amount of greenbacks equal to at least 25 per cent of its capital, in return for which it receives an equal amount of national reserve notes. It may then secure an amount of notes based on its general assets equal to 25 per cent of its capital, provided that bond-based notes have first been secured to an equal amount. It must, however, have deposited with the Government, to be placed in the bank-note guaranty fund, a sum in gold coin equal to 5 per cent of these last notes, and must have made such arrangements for the current redemption of these notes at some clearing-house city, as well as at its own counter, as the comptrollers may direct and approve.

TWO ILLUSTRATIONS.

How would a New England bank probably act? In New England loanable capital is abundant. The people are very conservative, and the banks of that section will probably be slow to adopt the new note issue. A bank in Rhode Island, for example, will probably deposit bonds to an amount approximating its capital, take an amount of national-reserve notes not very greatly in excess of the minimum requirement, and none of the new notes. After the success of the new note has been demonstrated, after its entire safety and great desirability have been thoroughly established through some years of experience, then the new note will be gradually taken out there as elsewhere.

How would a Minnesota bank probably act? Minnesota is possessed of immense undeveloped resources. Capital invested with reasonable prudence yields large returns. Though possessed of much wealth for a young State, there are so many openings for profitable investment that there is large demand for loanable capital at a good rate of interest. A bank in Minnesota, therefore, would probably take at once the maximum permitted; that is, it would take out bond-based notes to the amount of 40 per cent of its capital, reserve notes to the same amount, and thereby secure the right to issue the new form of note to the amount of 40 per cent of its capital. And each year after four years from the passage of this act, it would reduce the amount of its bond-based notes, as provided in this bill, so that at the end of eight years from the passage of this act the Minnesota bank would be able to use its credit in the form of untaxed bank notes to the extent of 80 per cent of its capital, and with the same profit to itself and its customers as it can now use its credit to be drawn upon by check.

HOW THE NEW NOTES ARE RENDERED ABSOLUTELY SAFE.

As has been said, a bank note is practically the same thing as the demand upon a bank expressed in a check. Before a bank will give to any person the right to check against it, it will require that person to deposit either cash or something else readily convertible into cash. Before giving out its note, too, the bank will require the person to whom it is given to make a similar deposit. The ideal condition will be reached when, the person having made the necessary deposit, the bank can furnish him either a check book or its notes with equal ease and at equal cost, leaving the customer to select the form of demand obligation which will best serve his legitimate business purposes. As a matter of fact, the same management of the bank which will render the check safe will make the note safe. But, as has been said earlier, the note is to go everywhere and be used by people unacquainted with each other or with the bank. To facilitate its use, therefore, it must be issued under a system which can be readily understood and which will give to the people generally such assurance of the goodness of the note that it will be accepted without hesitation by everyone. What, then, are the provisions of this bill whereby the safety of the note issues is secured and made uniform throughout the country?

(1) Uniformity of regulation. Every bank of issue is established under national law and is subject to national supervision. And the laws and regulations are so carefully drawn as to reduce to the minimum the opportunity for organization without ample guaranty of responsibility and good faith.

(2) Uniformity of note form. Familiarity of appearance, if previous experience has been satisfactory, conduces to ready reception. The resemblance of all the bank notes to each other will continue to be an important item in giving them currency.

(3) Limitation of issues. The bank-note issue of any bank can not at most exceed the amount of its paid up and unimpaired capital.

(4) Redemption agency. Each bank of issue may be required, under regulations to be prescribed by the Comptrollers, to make arrangements with some bank of well-known responsibility in a reserve city to redeem on presentation its notes, just as banks now make arrangements for the care of their checks and drafts. This will be another test of the standing of the bank.

(5) First lien. The bank note has the first lien on the assets of the bank.

(6) Double liability of the stockholder. The lien of the note takes precedence of everything else as to the double liability of the stockholders.

(7) Bank-note guaranty fund. Each bank in the system places in the hands of the Government a sum in gold coin, equal to 5 per cent of this class of notes issued to it, to be placed in what is called the "bank-note guaranty fund." These sums constitute one fund, and from this fund (which will be a very large one) the notes of any failed bank will be promptly paid on presentation at any subtreasury in the United States.

(8) Assessment. If at any time the money in the guaranty fund should run low, the Comptrollers are authorized to assess each bank in the system each year to the extent of 1 per cent of these notes issued to it. Starting with the year following the resumption of specie payments, Mr. A. O. Eliason has examined all the bank failures whose accounts have been closed, numbering one hundred and one, and found that had

all the banks in the national system issued an amount of currency equal to their capital, or one hundred per cent, the assessment on the same to cover losses would have been infinitesimal, being only one-nineteenth of one per cent per annum.

Recalling, however, that the banks deposit with the Government in gold coin an amount equal to 5 per cent of the notes issued for their redemption in case of bank failures, it is therefore clear that the currency will be safe beyond a peradventure.

In other words, briefly stated, the safety of the notes is secured on the mutual insurance plan, all the banks in the system being behind each bank.

SOLIDITY OF NOTE ISSUES UPON COMMERCIAL ASSETS.

With sufficient protection afforded by the bank-note guaranty fund against the occasional failure of a badly managed bank, the essential solidity of note issues upon commercial assets is bound up with the solidity of the business of the country. The advantage of having the whole commercial assets of the banks of the country pledged for the redemption of their notes lies in the fact that nearly the whole negotiable wealth of the country passes through their hands. The aggregate capital, surplus, undivided profits and individual deposits of national, State, and private banks, loan and trust companies, and savings banks, as reported by the Comptroller of the Currency at the date of June 30, 1897, or about that date, was \$6,822,326,870.

It is fair to assume that many of these banks which are not national banks would enter the system under the benefits afforded by the bill reported by your committee. These same items for the national banks alone on December 15, 1897, were \$2,887,000,000, and their loans were \$2,082,608,324. Since these loans are all payable within ninety days, with a circulation of \$300,000,000 issued by the existing national banks alone, the entire amount necessary to redeem this circulation in full would pass through the national banks within a period of about fifteen days. This control over quick assets, afforded by maturing commercial paper, as well as by accumulated cash reserves, explains the secret of the greater ability of the banks to maintain the current redemption of circulating notes than of the Treasury, with its comparatively small resources.

The general security of banking upon commercial assets, and the fact that the system could not break down except under an avalanche of calamity which would carry national, state, municipal, and private credit down also, is strikingly set forth in the report of the monetary commission appointed by the business men of the country for the framing of a currency bill, from which your committee has embodied several sections in the bill herewith reported. They say in their report:

The objection that is sometimes made that the larger banks in the great cities would not issue notes because of an apprehended liability for other banks, is shown by statistics to be groundless. Eighteen hundred and ninety-three was the year of largest bank failures, but had all the banks of the country then issued notes up to 80 per cent of their capital, the amount of their assessment to make good the ascertained deficiencies of that year up to the time of the Comptroller's report of 1896 would have been only a fraction of 1 per cent. Had 80 per cent of the capital of all the national banks been issued in notes, upon the proposed plan, since the beginning of the national-banking systems in 1863, the assessment upon the banks annually would have been an amount so insignificant that it need not be taken into account. Taking the country banks as a whole, it is found that on October 5 last, they had \$401,000,000 of the \$631,000,000 of national-bank capital. Should they issue notes

up to 80 per cent of their capital they would have \$321,000,000 of notes, and there would be \$1,956,000,000 of resources against these notes, not counting stockholders' liability.

If these resources of the country banks are insufficient security for this amount of notes, they will be insufficient only because there would then be such a condition of business paralysis that Government, municipal, and railway bonds would be valueless, and also few, if any, banks in the reserve cities would remain solvent. The occurrence of this disaster is so improbable that its consideration may be dismissed.

An apt and striking contrast of the power of commerce to maintain the parity of the currency, as compared with that of a government, is found in the splendid record of the Bank of France during the Franco-Prussian war, and our lamentable experience during and after the rebellion. Though the German army swept everything before it and took possession of Paris, though the Emperor became a prisoner, the discount upon the notes of the bank did not exceed $2\frac{1}{2}$ per cent, and that only for a few months; while in the United States, although our territory was practically never invaded by the enemy, with a Government issue in the form of greenbacks, our paper was at a discount for eighteen years, the greenbacks being worth at one time only 35 cents on the dollar or were at a discount of 65 per cent. During all those years the middlemen and speculators were reaping a harvest that was only possible because of a depreciated currency.

THE SECURITY OF DEPOSITORS INCREASED.

The bill gives to the note holder, or to the Government in his interest, a paramount lien on the assets of the bank. Is this just to the depositors? Is it good public policy?

The note holder is himself a depositor. The one to whom the note was originally handed by the bank certainly gave to the bank, deposited therein, an equivalent. He was therefore certainly a depositor. In passing the note to the second holder the first holder transferred, for value received, to the second his right to the original deposit. And so on with each transfer of the note. The possession of the note is the tangible evidence that the holder has succeeded to the first holder's right as a depositor. The fact that the claim is in the form of a note shows that the note holder is likely to be a nonresident of the place where the bank is located. The depositor, on the other hand, is likely to reside in or near the home town of the bank. He makes his deposit to serve his own personal purposes. He is at hand to keep an eye on the management of the bank; able, in some measure at least, to keep track of its operations. If at any time he feels insecure he can promptly regain possession of his deposit. The note holder, equally a depositor, can not in the nature of the case thus watch over his own interests. If either must lose, it seems clear that the note holder should not be that one. In justice and equity his should be a preferred claim.

As has already been shown, it is for the public interest that the bank note, in order that it may be most serviceable as currency, should pass from hand to hand without the receiver being required to take time to examine into the standing of the maker. In the interest of the public, therefore, the unquestionable goodness of the note must be guaranteed by the system under which it is issued. And in order that the system may furnish this unquestioned guaranty, it is necessary that the notes be given priority of other obligations. The giving of this precedence to the notes is, therefore, in harmony with good public policy.

It is right, then, both in equity and in public policy to give to the note holder the prior lien on the assets of the bank.

Does this priority of lien, proposed in the bill, lessen the security now possessed by depositors? It does not. This priority of lien by the note holder is recognized fully by the present system. Under the present law the assets necessary to secure the note holder are taken in advance absolutely out of the control of the bank and are placed, in the form of Government bonds, in the custody of the Government as trustee for the note holder. Under the proposed plan, the assets are left with the bank for the use of its customers, except a small contribution for the guaranty fund, and the lien is used only in case of necessity. The lien in the one case is no greater than in the other. In both cases the safety of the depositor depends upon the way in which the bank is managed. Inasmuch as the proposed plan provides for even more careful supervision than the present law, the security of the depositor is increased rather than diminished by it.

INTEREST RATES WILL BE LOWERED.

The banker of to-day is not a money changer in any sense, but a merchant in the same sense that the storekeepers of the town are merchants; for if you should look over the notes held by him you would find only another form of the goods in the various stores. He has collected the savings of one class and loaned them to another. As the goods are sold off and retailed out the proceeds are applied to the payment of these same notes which were originally given to pay for them.

Now, it is self-evident that any system of banking that will cut down the rates of interest on the notes of merchants and men engaged in productive industry will prove an inestimable blessing to the great mass of our people. When it is recalled that manufactured articles pass on an average through three distinct mercantile hands, and are carried largely on borrowed capital, from the raw material to the finished product, it is a matter of the greatest importance whether the rate of interest paid is 2 or 10 per cent. In fact, such a divergence in the interest rate of any country means success or failure, prosperity or poverty.

Under this bill, when the full advantages are realized, the bank with \$100,000 capital will be authorized to issue \$80,000 of its credit notes, or have, in other words, after deducting the guarantee fund deposited with the Government, \$176,000 of gold coin and currency to loan its customers. Four per cent interest on the latter amount will produce the same income as 7 per cent on the former. Therefore, the people will have the use of nearly double the amount of coin and currency at about one-half the rate of interest they are now compelled to pay. Thus, the capacity to make larger loans means the capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed without sinking their capital in bonds purchased at a premium, and may compete for the legitimate profits afforded by reasonable interest rates. More than this, a currency based upon commercial assets, and not rendered rigid in volume by the deposit of special security, comes back promptly to the issuing banks for redemption. The tendency of recent years for currency to drift to New York, where it is loaned at low rates of interest, would be largely arrested by the necessity of promptly sending notes

back for redemption and by the retirement of notes which were not needed in the commercial centers. Notes thus received back could be reissued, and would, at the worst, be in the hands of the community for at least a time before they again took their flight toward the money centers.

THE BENEFITS OF BRANCH BANKING.

The bill reported embodies a recommendation that national banks be permitted to establish branches. Branch banking has not been familiar in this country since the liquidation of the successful State banks of Ohio and Indiana at the beginning of the civil war. It is a system in almost universal use in other civilized countries where the methods of modern finance are well developed, and is almost essential to the economical use of capital and the distribution of credit.

One of the most striking benefits of branch banking is that a branch may be created and maintained at a profit in a community without sufficient business for an independent bank. This would permit the extension of credit into many localities in the thinly settled portions of the country where it is now impossible. Branch banking, moreover, permits the more ready flow of capital from communities where it is not needed to those where it is needed than does the operation of independent banks. It carries into every community the amount which is there demanded and which is in less demand at other points. Branch banking may be compared, in the fluidity which it gives to capital, to a connected series of tanks with open pipes between, while the possible borrowings of independent banks are more like a series of tanks whose pipes require to be opened when any change is sought in the level of the fluid.

Branch banking in connection with reasonable freedom of note issues has produced such favorable conditions in Scotland and Canada that interest rates are almost uniform throughout those countries, even in the most remote sections, and disclose none of the striking differences disclosed in this country between rates in the money centers and in certain remote sections. The 10 chartered banks of Scotland have more than 900 branches, and the 38 incorporated banks of Canada have nearly 500, in each case for a population which is less than a tithe that of the United States. There can be no question, in the opinion of your committee, that the combination of the power to establish branches with the power to issue a reasonable amount in notes upon commercial assets would give a vigor to the credit system of this country which has been lacking under the present complicated and unscientific system of fixed Government issues, rigid security for bank notes, and the prohibition upon the power to establish branches.

THE ULTIMATE OPERATION OF THE BILL.

The bill reported by your committee looks ultimately to the elimination of Government paper money from circulation. Whether the process will be slow or rapid may depend upon the disposition of the banks and the turn of financial events. The reserve notes for which the banks are liable will be gradually reduced when the Government assumes the liability for such notes issued by failed and liquidating banks. With the withdrawal of bonded security also, the ultimate currency of the country will consist of gold and silver coin of full legal-tender power, and of notes issued by the banks under the provisions of the proposed bill.

The growth in the wealth of the country and in its ability to retain at home a large portion of the great gold production of the United States will tend to swell the gold resources of the country until gold coin is likely to become a common factor in daily exchanges among the people. This condition of affairs will operate at once to simplify and strengthen the currency system and to increase the security afforded by the proposed law to the holders of bank notes. The banks will be required, when reserve notes and legal-tender notes have alike disappeared, to fulfill all requirements of law calling for lawful money by keeping gold and silver coin, and the present quantity of silver is likely to be so completely absorbed for retail exchanges that the bank reserves will consist almost entirely of gold. This being the case, it is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder.

The bill reported by your committee proposes no change in existing laws regarding reserves against deposits. The cash reserves required in reserve cities at the date of the reports of the national banks to the Comptroller on December 15, 1897, were \$251,176,860, and the cash reserves required in country banks were \$55,940,589, making a total of \$307,117,449. The cash reserves held at the same date were \$410,568,427. These amounts are now held largely in legal-tender notes, but the abolition of such notes would leave a void which could be filled only by gold. If the circulation of the national banks, therefore, without allowing for any growth in the meantime, should rise to the amount of their capital on December 15, 1897, which was \$629,655,365, the reserves held against deposits, with the requirement of the two special funds for current redemption and for the guaranty of the ultimate redemption of the notes, amounting to 10 per cent of the circulation outstanding, would in themselves exceed \$463,000,000 in gold, or nearly 75 per cent of the outstanding notes.

It is upon the solid rock of metallic currency like this, with additional metallic currency in circulation among the people, that your committee propose to plant finally, by the gradual evolution of events, the monetary system of the United States. We believe that the arrangements proposed in the bill will accomplish this result gradually enough to avoid any shock to any vested interest, but that it will be accomplished so certainly that the United States almost upon the enactment of a measure promising such results will find their credit greatly enhanced abroad and placed upon unassailable foundations at home.

Believing that this bill, if enacted into law, will relieve the Treasury by destroying the "endless chain;" will greatly diminish the amount of gold reserve required to be kept by the Government, and practically stop bond issues for its replenishment; will diminish the possibility and severity of panics; will provide a sound, ample, and elastic currency, responsive to the demands of trade in all sections and at all seasons; and will materially reduce interest rates, especially in the parts of the country where such rates are now high, the Committee on Banking and Currency respectfully recommend that the bill do pass, with the following amendments: On page 2, line 1, after the word "appointed" insert the words "by the President"; on page 9, line 18, after word "exceeding" add the words "in the sum of its bank-notes and currency notes"; and on page 24, line 5, strike out the words "such tax", substituting therefor the words "the tax imposed in section thirty of this act."

APPENDIX.

TABLE 1.—Apportionment of money in the Treasury on May 31, 1898, between the fiscal department of the Treasury and the proposed division of issue and redemption.

TREASURY, FISCAL DEPARTMENT.

Gold coin	\$34, 990, 518
Gold certificates	1, 602, 940
Silver dollars	1, 325, 803
Silver certificates	6, 740, 757
Silver bullion	939, 903
Subsidiary silver	12, 058, 123
Minor coin	1, 396, 260
United States notes	30, 208, 559
Currency certificates	60, 000
Treasury notes of 1890	1, 754, 425
Bonds and interest paid and fractional currency	3, 495, 210
Deposits in national banks	28, 731, 884
Total	123, 512, 498
Less outstanding checks and drafts, disbursing officers' balances, etc.	52, 713, 989
Available cash balance	70, 590, 394

DIVISION OF ISSUE AND REDEMPTION.

Gold coin and bullion:	
Held against gold certificates	37, 486, 149
5 per cent of \$461,180,422 (silver dollars)	23, 059, 021
25 per cent of \$346,681,016 (United States notes), and \$101,981,280 (Treasury notes)	112, 165, 574
Total gold	172, 710, 744
Silver dollars held against certificates	397, 732, 504
Silver dollars held against Treasury notes	4, 427, 855
Silver bullion (cost)	97, 553, 425
Subsidiary silver and minor coin	1, 000, 000
Total silver and minor coin	500, 713, 784
United States notes held against currency certificates	26, 540, 000
Grand total	699, 696, 413

NATIONAL-BANK NOTE FUNDS.

Redemption fund	8, 724, 768
Retirement fund	31, 275, 699

TABLE 2.—*Redemptions in gold of United States notes and Treasury notes and exports of gold by fiscal years, 1879-1897.*

[Finance Report, 1897, p. 140.]

Fiscal year.	United States notes.	Treasury notes of 1890.	Total.	Exports of gold.
1879.....	\$7,976,698		\$7,976,698	\$4,557,614
1880.....	3,780,638		3,780,638	3,639,025
1881.....	271,750		271,750	2,565,132
1882.....	40,000		40,000	32,587,880
1883.....	75,000		75,000	11,600,888
1884.....	590,000		590,000	41,081,957
1885.....	2,222,000		2,222,000	8,477,892
1886.....	6,863,699		6,863,699	42,952,191
1887.....	4,224,073		4,224,073	9,701,187
1888.....	692,596		692,596	18,376,234
1889.....	730,143		730,143	59,952,285
1890.....	732,386		732,386	17,274,491
1891.....	5,986,070		5,986,070	86,362,654
1892.....	5,352,243	\$3,773,800	9,125,843	50,195,327
1893.....	55,319,125	46,781,220	102,100,345	108,680,844
1894.....	68,242,408	16,599,742	84,842,150	76,978,061
1895.....	109,783,800	7,570,398	117,354,198	66,468,481
1896.....	153,307,581	5,348,365	158,655,956	112,409,947
1897.....	68,372,923	9,828,991	78,201,914	40,357,780
Total.....	494,563,143	89,902,316	584,465,459	794,249,820

TABLE 3.—*Redemptions in gold of United States notes and Treasury notes, by months, January, 1892, to December, 1897.*

[Finance Report, 1897, p. 139.]

Month.	United States notes.	Treasury notes of 1890.	Total.	Month.	United States notes.	Treasury notes of 1890.	Total.
1892.				1895.			
January.....	\$152,093	\$159,960	\$312,053	January.....	\$43,415,283	\$1,702,455	\$45,117,738
February.....	205,830	270,370	476,200	February.....	4,784,907	776,045	5,560,952
March.....	476,401	256,330	732,731	March.....	809,495	1,089,560	1,898,055
April.....	438,156	258,570	696,726	April.....	733,525	284,046	1,017,571
May.....	334,823	287,300	622,123	May.....	734,747	431,745	1,166,492
June.....	568,326	1,854,200	2,422,526	June.....	644,621	401,575	1,046,196
July.....	4,086,055	5,148,650	9,234,705	July.....	3,122,620	704,175	3,826,795
August.....	1,049,414	5,091,460	6,140,874	August.....	16,218,815	345,252	16,564,067
September.....	2,264,089	1,823,710	4,087,799	September.....	17,119,814	257,670	17,377,484
October.....	282,665	316,200	598,865	October.....	1,849,018	317,865	2,166,883
November.....	406,206	291,940	698,146	November.....	15,616,190	418,400	16,034,590
December.....	5,699,755	4,538,057	10,237,812	December.....	19,787,951	424,744	20,212,695
1893.				1896.			
January.....	6,359,126	5,137,491	11,496,617	January.....	15,686,024	762,484	1,6448,508
February.....	5,811,299	8,017,366	13,828,664	February.....	21,080,551	656,325	21,736,876
March.....	1,641,923	3,284,530	4,926,453	March.....	6,381,296	475,250	6,856,546
April.....	12,568,555	7,483,355	20,051,910	April.....	6,754,718	375,900	7,130,618
May.....	12,076,934	4,470,915	16,547,849	May.....	21,726,600	312,947	22,039,547
June.....	8,073,104	1,177,547	4,250,651	June.....	7,963,994	297,353	8,261,347
July.....	771,935	264,080	1,036,015	July.....	16,275,406	1,009,672	17,285,078
August.....	1,189,757	1,158,465	2,348,222	August.....	11,388,806	980,919	12,369,725
September.....	143,592	197,135	340,727	September.....	3,436,733	1,224,718	4,661,446
October.....	262,512	432,880	695,392	October.....	9,906,832	2,167,003	12,073,835
November.....	296,252	217,120	513,372	November.....	3,137,149	925,261	4,062,410
December.....	295,523	221,895	517,418	December.....	858,444	273,402	1,131,846
1894.				1897.			
January.....	118,841	237,515	356,356	January.....	594,412	351,656	946,068
February.....	10,982,624	8,210,730	19,193,354	February.....	521,355	402,769	924,124
March.....	2,266,426	1,194,766	3,461,192	March.....	679,382	569,947	1,249,329
April.....	6,072,042	1,594,085	7,666,127	April.....	6,934,575	567,433	7,502,008
May.....	25,131,412	1,409,670	26,541,082	May.....	8,044,965	837,635	8,882,600
June.....	20,708,492	1,461,401	22,169,893	June.....	6,594,864	518,581	7,113,445
July.....	13,367,864	555,511	13,923,375	July.....	5,072,208	202,935	5,275,143
August.....	4,209,853	531,560	4,741,413	August.....	2,875,606	240,670	3,116,276
September.....	368,031	300,487	668,518	September.....	2,598,140	144,033	2,742,173
October.....	2,542,719	505,171	3,047,890	October.....	2,484,182	191,338	2,675,520
November.....	7,085,133	714,614	7,799,747	November.....	1,812,909	321,145	2,134,054
December.....	80,819,623	1,067,599	81,907,221	December.....	1,980,396	197,220	2,177,616

TABLE 4.—*Transactions of New York clearing house for forty-four years.*

[Report Comptroller of the Currency, 1897, p. 550.]

Year.	Num- ber of banks.	Capital. ¹	Clearings.	Balances paid in money.	Average daily clearings.	Average daily bal- ances paid in money.	Bal- ances to clear- ings.
1854	50	\$47, 044, 900	\$5, 750, 455, 987	\$297, 411, 494	\$19, 104, 505	\$988, 078	Per ct.
1855	48	48, 884, 180	5, 362, 912, 098	289, 694, 137	17, 412, 052	940, 565	5.2
1856	50	52, 883, 700	6, 906, 213, 328	334, 714, 489	22, 278, 108	1, 079, 724	5.4
1857	50	64, 430, 200	8, 333, 226, 718	365, 313, 902	26, 968, 371	1, 182, 246	4.8
1858	46	67, 146, 018	4, 750, 664, 586	314, 238, 911	15, 393, 736	1, 016, 954	6.7
1859	47	67, 921, 714	6, 448, 005, 856	363, 984, 683	20, 867, 333	1, 177, 944	5.6
1860	50	69, 907, 435	7, 231, 143, 057	380, 693, 498	23, 401, 757	1, 232, 018	5.3
1861	50	68, 900, 605	5, 915, 742, 758	353, 383, 944	19, 269, 520	1, 151, 088	6.0
1862	50	68, 375, 820	6, 871, 443, 591	415, 530, 331	22, 237, 682	1, 344, 758	6.0
1863	50	68, 972, 508	14, 867, 597, 849	677, 628, 483	48, 428, 657	2, 207, 252	4.6
1864	49	68, 586, 763	24, 097, 196, 656	885, 719, 205	77, 984, 455	2, 868, 405	3.7
1865	55	80, 363, 013	26, 032, 384, 342	1, 035, 765, 108	84, 790, 040	3, 373, 828	4.0
1866	58	82, 370, 200	28, 717, 146, 914	1, 066, 135, 106	93, 541, 195	3, 472, 753	3.7
1867	58	81, 770, 200	28, 675, 159, 472	1, 144, 963, 451	93, 101, 167	3, 717, 414	4.0
1868	59	82, 270, 200	28, 484, 288, 637	1, 125, 455, 237	92, 182, 164	3, 642, 250	4.0
1869	59	82, 720, 200	37, 407, 028, 987	1, 120, 318, 328	121, 451, 393	3, 623, 397	3.0
1870	61	83, 620, 200	27, 804, 530, 406	1, 036, 484, 822	90, 274, 479	3, 365, 210	3.7
1871	62	84, 420, 200	29, 300, 986, 682	1, 209, 721, 029	95, 133, 074	3, 927, 668	4.1
1872	61	84, 420, 200	33, 844, 369, 568	1, 428, 582, 707	109, 884, 317	4, 638, 256	4.2
1873	59	83, 370, 200	35, 461, 052, 826	1, 474, 508, 025	115, 885, 794	4, 818, 654	4.1
1874	59	81, 635, 200	22, 855, 927, 636	1, 286, 753, 176	74, 698, 574	4, 205, 076	5.6
1875	59	80, 435, 200	25, 061, 237, 902	1, 408, 608, 777	81, 899, 470	4, 803, 297	5.6
1876	59	81, 731, 200	21, 597, 274, 247	1, 295, 042, 029	70, 349, 428	4, 218, 378	6.0
1877	58	71, 085, 200	23, 289, 243, 701	1, 373, 996, 302	76, 358, 176	5, 504, 906	5.9
1878	67	83, 611, 500	22, 508, 438, 442	1, 307, 843, 857	73, 785, 747	4, 274, 000	5.8
1879	59	80, 800, 200	25, 178, 770, 691	1, 400, 111, 063	82, 015, 540	5, 080, 622	5.6
1880	59	80, 475, 200	37, 182, 128, 621	1, 516, 538, 631	121, 510, 224	4, 956, 009	4.1
1881	61	81, 162, 700	48, 565, 818, 212	1, 776, 018, 162	159, 232, 191	5, 823, 010	3.6
1882	62	80, 962, 700	46, 552, 846, 161	1, 595, 000, 245	151, 637, 935	5, 195, 440	3.4
1883	64	81, 162, 700	40, 293, 165, 258	1, 568, 983, 196	132, 548, 307	5, 161, 129	3.9
1884	62	80, 412, 700	34, 092, 037, 338	1, 524, 930, 994	111, 048, 982	4, 967, 202	4.5
1885	64	58, 612, 700	25, 250, 791, 440	1, 295, 355, 252	82, 789, 480	4, 247, 069	5.1
1886	64	59, 312, 700	33, 374, 682, 216	1, 519, 565, 385	109, 067, 589	4, 905, 900	4.6
1887	65	80, 862, 700	34, 872, 848, 786	1, 569, 626, 325	114, 337, 209	5, 146, 316	4.5
1888	64	80, 762, 700	30, 863, 686, 609	1, 570, 198, 528	101, 192, 415	5, 148, 192	5.1
1889	64	80, 762, 700	34, 796, 465, 529	1, 757, 637, 473	114, 839, 820	5, 800, 784	5.0
1890	65	80, 812, 700	37, 660, 686, 572	1, 753, 040, 145	123, 074, 139	5, 728, 889	4.7
1891	64	80, 772, 700	34, 053, 698, 770	1, 584, 635, 500	111, 651, 471	5, 105, 526	4.6
1892	65	80, 422, 700	36, 279, 905, 236	1, 861, 500, 575	118, 561, 782	6, 083, 335	5.1
1893	65	80, 922, 700	34, 421, 380, 870	1, 096, 207, 176	113, 978, 082	5, 616, 580	4.9
1894	66	81, 622, 700	24, 230, 145, 368	1, 585, 251, 634	79, 704, 426	5, 214, 611	6.5
1895	67	82, 622, 700	28, 264, 379, 126	1, 896, 574, 349	92, 670, 095	6, 218, 277	6.71
1896	66	80, 622, 700	29, 350, 894, 884	1, 843, 289, 239	96, 232, 442	6, 043, 571	6.3
1897	66	59, 022, 700	31, 337, 760, 948	1, 908, 901, 898	103, 424, 954	6, 300, 006	6.01
Total	.....	\$67, 467, 400	\$1, 134, 201, 773, 780	\$53, 215, 844, 719	\$84, 127, 116	\$3, 947, 177	4.69

¹ The capital is for various dates, the amounts at a uniform date in each year not being obtainable.² Yearly average for forty-four years.³ Totals for forty-four years.TABLE 5.—*Clearing-house exchanges for years ending September 30, 1882-1897.*

Year.	New York.	Boston.	Philadelphia.	Chicago.	Total for United States.
1882	\$46, 552, 846, 161	\$3, 753, 496, 901	\$2, 760, 946, 905	\$2, 373, 903, 487	\$61, 054, 353, 584
1883	40, 232, 165, 258	3, 540, 980, 659	2, 794, 181, 748	2, 507, 022, 178	53, 536, 061, 332
1884	34, 092, 037, 338	3, 314, 358, 019	2, 684, 517, 901	2, 849, 152, 646	47, 387, 408, 275
1885	25, 250, 791, 440	3, 365, 702, 730	2, 244, 194, 406	2, 246, 230, 189	37, 770, 110, 819
1886	33, 374, 682, 216	4, 008, 565, 266	2, 785, 875, 450	2, 560, 369, 272	48, 211, 643, 771
1887	34, 872, 848, 786	4, 408, 269, 963	3, 196, 188, 935	2, 887, 276, 059	52, 126, 704, 488
1888	30, 863, 686, 609	4, 288, 878, 016	3, 155, 190, 227	3, 089, 288, 194	48, 651, 664, 957
1889	34, 796, 465, 529	4, 758, 029, 288	2, 663, 592, 024	3, 327, 108, 659	53, 501, 411, 510
1890	37, 660, 686, 572	5, 102, 281, 307	2, 755, 523, 735	3, 907, 046, 008	58, 845, 279, 505
1891	34, 053, 698, 770	4, 795, 594, 052	4, 338, 693, 169	3, 372, 915, 651	57, 181, 347, 264
1892	36, 279, 905, 236	4, 801, 096, 976	4, 859, 861, 142	3, 671, 149, 047	61, 017, 839, 067
1893	34, 421, 379, 870	4, 864, 779, 750	4, 970, 913, 387	3, 656, 677, 140	58, 880, 682, 455
1894	24, 230, 145, 368	4, 095, 995, 060	4, 263, 560, 459	2, 962, 642, 206	45, 028, 496, 746
1895	28, 264, 379, 126	4, 629, 303, 920	4, 641, 435, 624	3, 395, 864, 643	51, 111, 591, 928
1896	29, 350, 894, 884	4, 554, 116, 109	4, 538, 505, 883	3, 383, 903, 806	51, 977, 796, 114
1897	31, 337, 760, 948	4, 952, 927, 911	4, 318, 121, 413	3, 106, 510, 779	54, 030, 253, 665

TABLE 6.—Extent to which banks in different sections issue currency in excess of that corresponding to the minimum bond deposit permitted by law.

Groups.	Number of banks.	Capital.	Maximum issue permissible.	Issue on required bond deposit.	Circulation actually issued.	Amount actually issued in excess of issue on required bond deposit.
EAST.						
New Hampshire	50	\$5,830,000	\$5,247,000	\$1,311,750	\$3,514,295	\$2,202,545
Vermont	49	6,985,000	6,286,500	1,324,125	3,765,422	2,441,297
Rhode Island (outside Providence)	33	4,715,250	4,243,725	1,014,750	2,756,868	1,742,118
Total	132	17,530,250	15,777,225	3,650,625	10,036,585	6,385,960
WEST.						
Nebraska	104	10,475,000	9,427,500	1,828,125	2,028,893	200,768
Kansas	103	8,567,100	7,710,390	1,691,347	2,111,454	420,107
Missouri (outside St. Louis)	57	6,415,000	5,773,500	1,162,125	1,377,890	215,765
Total	264	25,457,100	22,911,390	4,681,597	5,518,237	836,640
SOUTH.						
North Carolina	27	2,701,000	2,430,900	585,225	643,492	58,267
South Carolina	16	1,898,000	1,708,200	393,300	451,025	57,725
Florida	15	1,150,000	1,035,000	256,750	300,830	42,080
Alabama (outside Selma)	25	2,955,000	2,659,500	591,750	697,670	105,920
Mississippi	10	853,000	769,500	192,375	216,410	24,035
Arkansas	9	1,220,000	1,098,000	252,000	258,890	6,890
Total	102	10,779,000	9,701,100	2,273,400	2,568,317	294,917

TABLE 7.—Value in gold of \$100 in currency in the New York market, 1862-1878, averaged by months.

[Bureau of Statistics, "Finance, Commerce, and Immigration," October, 1895, page 518.]

Periods.	1862.	1863.	1864.	1865.	1866.	1867.	1868.	1869.	1870.	1871.	1872.	1873.	1874.	1875.	1876.	1877.	1878.
Jan	97.6	68.9	64.3	46.3	71.4	74.3	72.2	73.7	82.4	90.3	91.7	88.7	89.7	88.9	88.6	94.0	97.9
Feb	96.6	62.3	63.1	48.7	72.3	72.8	70.7	74.4	83.7	89.7	90.7	87.6	89.1	87.3	88.2	94.8	98.0
Mar	98.2	64.7	61.4	57.5	76.6	74.1	71.7	76.2	88.8	90.1	90.8	86.6	89.2	86.6	87.5	95.4	98.8
Apr	98.5	66.0	67.9	67.3	78.6	73.7	72.1	75.2	88.4	90.4	90.0	84.9	88.2	87.1	88.5	94.2	99.4
May	96.8	67.2	66.7	73.7	75.9	73.0	71.6	71.8	87.2	89.7	88.0	85.0	89.9	86.3	88.8	93.5	99.3
June	93.9	69.2	47.5	71.4	67.2	72.7	71.4	72.4	88.6	89.0	87.8	85.8	90.0	85.5	88.9	94.9	99.2
July	86.6	76.6	58.7	70.4	68.0	71.7	70.1	73.5	85.6	89.0	87.5	86.4	91.0	87.1	89.3	94.9	99.5
Aug	87.3	79.5	39.4	69.7	67.2	71.0	68.7	74.5	84.8	89.0	87.4	86.7	91.2	88.1	89.9	95.2	99.5
Sept	84.4	74.5	44.9	69.5	68.7	69.7	69.6	73.1	87.1	87.3	88.1	88.7	91.2	86.4	90.9	96.8	99.6
Oct	77.8	67.7	48.3	68.7	67.4	69.7	72.9	76.8	88.7	88.3	88.3	91.8	91.0	85.9	91.2	97.3	99.5
Nov	76.3	67.6	42.8	68.0	69.5	71.6	74.4	79.2	89.8	89.9	88.6	92.1	90.2	87.2	91.7	97.3	99.8
Dec	75.6	66.2	44.0	69.4	73.2	74.2	74.0	82.3	90.3	91.5	89.1	90.9	89.6	87.8	92.6	97.3	99.9

¹On July 11, 1864, \$100 in greenbacks was worth only \$35.09 in gold.

TABLE 8.—Paper currency of each denomination outstanding May 31, 1898.

Denomination.	United States notes.	Treasury notes of 1890.	National bank notes.	Gold certificates.	Silver certificates.	Total.
One dollar	\$2,522,938	\$15,826,939	\$349,640	.....	\$30,884,224	\$49,583,741
Two dollars	2,169,048	10,466,076	168,508	.....	18,804,414	31,608,046
Five dollars	62,818,662	31,162,655	71,658,670	.....	109,256,375	274,896,362
Ten dollars	81,077,861	29,683,900	70,319,400	.....	124,697,316	305,778,477
Twenty dollars	69,344,232	9,280,460	52,556,260	\$4,697,894	80,597,470	216,485,316
Fifty dollars	14,648,375	2,263,850	10,741,900	2,667,855	22,750,335	51,072,215
One hundred dollars	25,466,400	2,264,400	21,731,900	3,845,400	10,255,870	63,393,970
Five hundred dollars	15,464,500	.....	111,500	3,410,500	192,500	19,199,000
One thousand dollars	74,124,000	3,024,000	.....	5,539,500	294,000	83,009,500
Five thousand dollars	15,000	.....	.....	5,205,000	.....	5,220,000
Ten thousand dollars	10,000	.....	.....	12,320,000	.....	12,330,000
Fractional parts .....	.....	.....	80,691	.....	.....	80,691
Total	347,681,016	101,981,230	227,696,369	37,486,149	397,732,504	1,112,577,318
Unknown, destroyed	1,000,000	.....	.....	.....	.....	1,000,000
Net	346,681,016	101,981,230	227,696,369	37,486,149	397,732,504	1,111,577,318

TABLE 9.—Items of national bank statements, 1863-1897.

About Oct. 1, each year.	Number of banks.	Capital.	Surplus and undivided profits.	Circulation.	Bonds held to secure circulation.	Other United States bonds.	Specie.	Legal tender note.	Deposits.	Loans and discounts.
1863.....	66	\$7,188,393	\$128,030	645,290,504	.....	.....	\$1,446,408	.....	\$3,497,632	\$5,466,088
1864.....	508	86,782,802	7,902,679	171,321,903	.....	.....	44,801,497	.....	123,168,537	81,238,658
1865.....	1,513	393,157,206	85,952,764	290,253,818	.....	.....	18,072,013	.....	549,081,254	487,170,136
1866.....	1,644	415,472,369	75,962,764	293,887,941	.....	.....	9,226,832	.....	603,314,705	609,675,215
1867.....	1,642	420,073,415	104,047,033	293,789,489	.....	.....	12,798,044	.....	608,212,337	657,668,818
1868.....	1,643	420,634,511	114,001,645	295,793,489	.....	.....	13,003,713	.....	603,084,550	657,668,818
1869.....	1,617	428,398,151	126,852,635	293,593,645	.....	.....	23,002,406	.....	523,020,491	657,668,818
1870.....	1,615	430,398,301	132,070,058	291,793,640	.....	.....	18,460,011	.....	515,228,299	715,928,060
1871.....	1,767	458,253,696	143,121,286	315,519,117	.....	.....	13,252,968	.....	631,314,216	831,552,210
1872.....	1,919	479,629,174	156,881,631	333,495,927	.....	.....	10,229,757	.....	628,858,027	877,197,923
1873.....	1,976	491,072,616	170,429,544	333,225,298	.....	.....	11,132,663	.....	640,015,999	914,220,110
1874.....	2,004	493,765,121	180,442,544	338,350,379	.....	.....	21,240,945	.....	630,815,255	954,394,792
1875.....	2,089	504,829,769	187,321,030	318,350,379	.....	.....	8,050,330	.....	670,361,881	984,091,434
1876.....	2,088	498,809,232	178,647,498	291,544,236	.....	.....	21,360,767	.....	668,237,499	931,304,714
1877.....	2,080	479,467,771	167,348,800	291,874,236	.....	.....	22,658,820	.....	630,377,398	891,920,504
1878.....	2,053	466,147,395	157,833,984	301,888,092	.....	.....	30,688,607	.....	608,352,174	833,968,451
1879.....	2,048	454,067,865	156,087,470	317,350,086	.....	.....	42,173,731	.....	736,894,369	878,503,097
1880.....	2,090	457,553,985	166,658,274	320,200,069	.....	.....	100,346,509	.....	887,883,067	1,040,977,268
1881.....	2,132	463,821,985	183,157,761	314,721,215	.....	.....	114,334,736	.....	1,173,796,083	1,173,796,083
1882.....	2,269	483,104,213	203,552,441	310,517,857	.....	.....	102,857,778	.....	1,243,203,210	1,243,203,210
1883.....	2,501	509,699,787	210,289,275	298,775,123	.....	.....	80,642,997	.....	1,806,244,782	1,806,244,782
1884.....	2,664	524,271,345	210,289,275	298,775,123	.....	.....	80,642,997	.....	1,243,203,210	1,243,203,210
1885.....	2,714	527,524,410	205,960,161	268,869,597	.....	.....	176,478,336	.....	1,306,143,990	1,306,143,990
1886.....	2,852	548,240,730	223,752,686	228,672,610	.....	.....	158,277,491	.....	1,450,657,055	1,450,657,055
1887.....	3,049	578,462,765	245,364,608	187,283,343	.....	.....	165,085,964	.....	1,587,549,134	1,587,549,134
1888.....	3,140	592,621,656	262,854,991	151,702,810	.....	.....	178,998,236	.....	1,408,833,600	1,408,833,600
1889.....	3,290	612,584,095	282,281,830	128,450,600	.....	.....	90,654,461	.....	1,817,257,703	1,817,257,703
1890.....	3,540	650,447,235	310,570,531	122,928,085	.....	.....	96,759,793	.....	1,597,070,082	1,597,070,082
1891.....	3,677	677,426,870	330,891,180	131,323,302	.....	.....	105,908,859	.....	2,005,463,208	2,005,463,208
1892.....	3,773	696,573,015	340,594,180	143,423,298	.....	.....	113,335,908	.....	1,610,036,150	1,610,036,150
1893.....	3,781	678,540,339	350,225,444	152,969,728	.....	.....	224,703,890	.....	1,788,184,728	1,788,184,728
1894.....	3,766	668,861,847	334,121,082	172,831,978	.....	.....	237,250,655	.....	1,468,321,602	1,468,321,602
1895.....	3,712	657,135,499	336,888,351	182,481,611	.....	.....	196,237,811	.....	1,716,865,788	1,716,865,788
1896.....	3,676	648,540,325	336,842,836	209,944,019	.....	.....	143,866,085	.....	1,614,728,109	1,614,728,109
1897.....	3,610	631,458,096	334,752,001	198,920,670	.....	.....	239,387,702	.....	1,871,274,362	1,871,274,362

TABLE 10.—*Increase of note-issuing power under proposed law.*
 [Computed by the actuary of the Treasury Department.]

	Capital stock (Feb. 18, 1898).	Loanable power under existing law.	Loanable power under proposed law at beginning.	Loanable power under proposed law after 8 years.
Maine	\$11,121,000	\$8,644,042	\$14,234,880	\$19,128,120
New Hampshire	5,815,000	4,519,837	7,443,200	10,001,800
Vermont	6,985,000	5,429,245	8,940,800	12,014,200
Massachusetts	43,877,500	84,104,752	58,183,200	75,469,300
Boston.....	49,350,000	38,358,273	63,168,000	84,882,000
Rhode Island	19,337,050	15,030,147	24,751,424	33,250,726
Connecticut	21,541,070	16,743,271	27,572,570	37,050,640
Total of New England States	158,026,620	122,829,667	202,274,074	271,805,786
New York	81,607,040	24,567,967	40,458,163	54,365,657
New York City.....	48,900,000	38,008,600	62,592,000	84,108,000
Albany.....	1,550,000	1,204,772	1,984,000	2,666,000
Brooklyn.....	1,352,000	1,050,872	1,730,560	2,325,440
New Jersey	14,445,000	11,227,694	18,489,600	24,845,400
Pennsylvania	40,709,445	31,642,312	62,108,089	70,020,245
Philadelphia.....	20,915,000	16,256,844	26,771,200	35,973,800
Pittsburg.....	12,300,000	9,560,446	15,744,000	21,156,000
Delaware	2,083,985	1,619,823	2,667,501	3,584,454
Maryland	3,746,700	2,912,205	4,795,776	6,444,324
Baltimore.....	13,243,280	10,293,615	16,951,373	22,778,407
District of Columbia	252,000	105,872	322,560	433,440
Washington City.....	2,775,000	2,156,930	3,552,000	4,773,000
Total of Eastern States	193,880,330	150,697,752	248,166,822	333,474,167
Virginia	4,646,300	3,611,439	5,497,264	7,991,636
West Virginia	3,351,000	2,604,638	4,289,280	5,783,720
North Carolina	2,651,000	2,060,548	3,393,280	4,559,720
South Carolina	1,898,000	1,475,202	2,429,440	3,264,560
Georgia	3,166,000	2,460,843	4,052,480	5,445,520
Savannah.....	750,000	582,954	960,000	1,290,000
Florida	1,150,000	893,863	1,472,000	1,978,000
Alabama	3,355,000	2,607,747	4,294,400	5,770,600
Mississippi	855,000	664,568	1,094,400	1,470,600
Louisiana	880,000	668,454	1,100,800	1,479,200
New Orleans.....	2,300,000	1,787,726	2,944,000	3,956,000
Texas	18,642,040	14,489,936	23,861,811	32,064,809
Houston.....	1,150,000	893,863	1,472,000	1,978,000
Arkansas	1,070,000	831,681	1,369,600	1,840,400
Kentucky	8,289,900	6,443,507	10,611,072	14,258,628
Louisville.....	3,000,000	2,331,816	3,840,000	5,160,000
Tennessee	8,535,000	6,634,017	10,924,800	14,680,200
Total of Southern States	65,669,240	51,042,862	84,056,627	112,951,093
Ohio	27,967,030	21,737,989	35,797,798	48,103,292
Cincinnati.....	7,800,000	6,062,722	9,984,000	13,416,000
Cleveland.....	9,775,000	7,597,834	12,512,000	16,813,000
Indiana	13,732,000	10,673,499	17,576,960	23,619,040
Illinois	17,796,000	13,832,332	22,778,880	30,800,120
Chicago.....	16,950,000	14,729,304	24,256,000	32,594,000
Michigan	8,595,000	6,680,653	11,001,600	14,783,400
Detroit.....	3,300,000	2,564,998	4,224,000	5,676,000
Wisconsin	6,810,000	5,293,222	8,716,800	11,713,200
Milwaukee.....	3,250,000	2,526,134	4,160,000	5,590,000
Minnesota	4,815,000	3,742,565	6,163,200	8,281,800
St. Paul.....	3,800,000	2,953,634	4,564,000	6,536,000
Minneapolis.....	4,500,000	3,497,724	5,760,000	7,740,000
Iowa	12,090,000	9,397,218	15,475,200	20,794,800
Des Moines.....	800,000	621,818	1,024,000	1,376,000
Missouri	3,615,000	2,809,838	4,627,200	6,217,800
St. Louis.....	3,400,000	6,529,085	10,752,000	14,448,000
Kansas City.....	2,300,000	1,787,726	2,944,000	3,956,000
St. Joseph.....	350,000	272,045	448,000	602,000
Total of Middle States	158,645,030	123,310,340	203,065,638	272,869,452
North Dakota	1,555,000	1,208,658	1,990,400	2,674,600
South Dakota	1,635,000	1,270,840	2,092,800	2,812,200
Nebraska	5,875,000	4,566,473	7,520,000	10,105,000
Lincoln.....	800,000	621,818	1,024,000	1,376,000
Omaha.....	3,750,000	2,914,770	4,800,000	6,450,000
Kansas	6,517,100	6,620,103	10,901,888	14,649,412
Montana	2,525,000	1,985,930	3,270,400	4,394,600
Wyoming	860,000	668,454	1,100,800	1,478,200
Colorado	4,907,000	3,814,074	6,280,960	8,440,040
New Mexico	800,000	466,363	768,000	1,032,000
Oklahoma	250,000	194,818	320,000	430,000
Indian Territory	660,000	512,999	844,800	1,135,200
Total of Western States	31,964,100	24,844,800	40,914,048	54,978,252

TABLE 10.—*Increase of note-issuing power under proposed law—Continued.*

[Computed by the actuary of the Treasury Department.]

	Capital stock (Feb. 18, 1898).	Loanable power under existing law.	Loanable power under proposed law at beginning.	Loanable power under proposed law after 8 years.
Washington	\$3,978,000	\$3,091,988	\$5,091,840	\$6,842,160
Oregon	3,020,000	2,347,361	3,865,600	5,194,400
California	4,875,000	3,789,201	6,240,000	8,385,000
San Francisco	6,000,000	4,663,632	7,680,000	10,320,000
Idaho	800,000	466,363	768,000	1,032,000
Utah	1,750,000	1,360,226	2,240,000	3,010,000
Nevada	82,000	63,736	104,960	141,040
Arizona	400,000	310,909	512,000	688,000
Total of Pacific States	20,705,000	16,093,416	26,502,400	35,612,660
Total of United States	628,890,320	488,818,837	804,979,609	1,081,691,350

United States 4 per cent bonds of 1907, at 110 net, are taken as a basis.

[Especially note pages 175 to 180.]

TO SECURE TO THE PEOPLE A SOUND CURRENCY.

JUNE 23, 1898.—Committed to the Whole House on the state of the Union and ordered to be printed.

Mr. WALKER, of Massachusetts, from the Committee on Banking and Currency, submitted the following

VIEWS OF THE MINORITY.

[To accompany H. R. 10289.]

The undersigned respectfully dissents from the views of the signers of the favorable report on bill H. R. 10289, and recommends that all after the enacting clause be stricken out and the text of bill H. R. 10,333, introduced in the House by Mr. Walker and referred to the Committee on Banking and Currency, be inserted in its place.

WALKER BILL THE ONLY REMEDY.

I can see no conceivable relief from the present financial and banking conditions of the country, but on the other hand the certainty that it would be made worse by enacting any general bill referred to the committee, excepting the Walker bill H. R. 10333, and the bills before the committee have steadily grown worse, culminating in the Hill-Fowler bill, H. R. 10289.

Not one of the bills presented to the Committee on Banking and Currency, except the Walker bill, recognizes—much less fearlessly and closely follows—any known principle of economics or any recognized banking principle. Not one of them except the Walker bill safely and securely does any one of the four things absolutely necessary to be done to relieve the situation, viz,

1. To relieve the United States Treasury from the current redemption of every form of paper money and from any responsibility for maintaining the parity of our various kinds of money.
2. The devolving of the duty and responsibility of maintaining parity between all moneys upon the banks.
3. The allowing of banks to issue true bank currency—i. e., to issue currency against their assets.
4. The securely uniting all the commercial banks in the country through clearing houses into one strong body to maintain parity between all moneys.

From the first section to the last section the two bills are antagonistic.

From the opening to the close it is the

Hill-Fowler bill, H. R. 10289.	}versus.....	{ Walker bill, H. R. 10333.
The results of ratiocination	}versus.....	{ The results of investigation.
A putting into the present law things new, incon- gruous, and untried, or that have failed	} ...versus... {	A putting into the present law things old, harmoni- ous, and approved by ex- perience.

The Hill-Fowler bill (H. R. 10289) does not propose to and does not effect a solid union of the commercial banks of the country. It leaves each bank in its present inflexible, isolated, and panic condition. It thereby leaves out of its scope its avowed purpose and makes it impossible of being accomplished by the bill.

The Walker bill, on the other hand, is written in accord with recognized economics, and adheres in every sentence to sound banking principles. It secures a solid union of all commercial banks into a logical system and provides for the safe and complete transition of every commercial bank in the country, were it done even during a panic, from its present inflexible, isolated, and panic condition into an elastic, cooperative, anti-panic system, and makes it an integral part of a symmetrical and firmly constructed and completed whole, which is absolutely necessary as a condition precedent to any substantial relief of the United States Treasury and banking conditions in any safe and wise financial and banking legislation.

UNION OF ALL COMMERCIAL BANKS.

The warp and woof of the Walker bill is the taking of every commercial bank in the country out of its perilous condition of isolation, which invites and contributes to such panics as have frequently visited them during their whole existence, by allaying antagonism and shutting out all injurious competition and rivalry between banks, induced by their isolation, through clearing houses that now exist. Thus it is made sure that the banks will maintain parity, by making it for the interest of each bank to assist all other banks in doing so, by uniting all banks in one symmetrical whole to enable them in combination to maintain parity successfully, which is impossible in isolation, i. e., maintain the parity between silver coin and gold coin, and maintain the parity between all the various forms of our paper money and our coin money by making it profitable for the banks to do so, and forcing it upon unpatriotic and reluctant banks by a tax of one-half of 1 per cent per annum on deposits if the banks as a whole fail to maintain parity, and, unlike the Hill-Fowler bill, cutting the banks and individuals off from getting any gold out of the United States Treasury under any circumstances.

MAINTAINING PARITY.

The Hill-Fowler bill does the exact opposite of the Walker bill. Enacted into law it would call for more gold from the Treasury and heavier taxation to maintain parity under the present Treasury system, and make conditions worse than they now are.

Its effect can be certainly predicted from the experience of the past,

not only of this country but of all others. Isolated banks, each independent of the other, in no country have found it possible to keep silver coin and gold coin at a parity and freely circulating side by side as it is assumed they can do in the Hill-Fowler bill. Parity never has been kept between gold and silver, excepting where the banks were united to do it. Not an example can be found to justify the Hill-Fowler experiment. The experience of this country and of all others fails to justify it. The sharp rivalry between our independent banks, prior to 1834, compelled every bank in the country to redeem its circulating notes in silver dollars, because the value of the bullion in the silver dollar was 3 to 4 per cent less than the bullion in the gold dollar. After 1834 not a silver dollar was paid in redeeming its circulating notes by any isolated bank in the country, because the bullion in the new silver dollar was worth from 3 to 4 per cent more than the bullion in the gold dollar. Banks had silver dollars in their vaults, but they always insisted on a premium of 3 to 4 per cent in paying them out.

NEW YORK CLEARING HOUSE.

Parity is now maintained in this country by the United States Treasury, by the Treasury being a member of the New York clearing house, thus making the United States Treasury ultimately responsible for its transactions at an annual cost of scores on scores of millions of dollars taken from the people in taxes. To do this also requires that hundreds of millions of dollars shall at all times be in the Treasury, practically as a guaranty of its solvency, for maintaining parity.

The national banking law has come to be one of the most oppressive legacies of the civil war, in its continued forced loans on the people in compelling the purchase of United States bonds. The Hill-Fowler bill proposes to continue it for eight years. It differs as much from the freedom and independence of normal and free banking and the issuing of normal bank currency as does martial law and the provost-marshal from normal liberty and the jury trial.

BANK OF ENGLAND SYSTEM COPIED.

But the most illogical, uneconomic, and indefensible proposition in the whole list of things proposed to be done, and a thing not consistent in a law drawn on true banking principles, is the proposal to create in the United States Treasury a department of issue and redemption. Such a department would be not only useless, but wholly vicious.

If there is one thing more than another that is well settled in the management of banks, treasuries, corporations, and private firms, it is this, viz, that every dollar of what is designated "money funds" must be at the free use of the responsible manager of them, especially in times of panic.

The avowed reason for creating this department is to destroy the United States legal-tender notes directly or indirectly, either by changing them into a gold certificate or by canceling them outright. To resort to such a cumbersome device for that purpose could only have been suggested by the double-headed contrivance in the Bank of England. It has been condemned, as to the Bank of England, by nearly every writer on finance in Europe and by the best thought in England. It has never once been approved in the whole world by the only possible method of expressing a genuine approval of a financial device, viz, by imitation. I shall treat further on this subject in closing this report.

The Hill-Fowler bill attempts the impossible feat of grafting on to the Government Treasury, which has no banking resources or banking machinery, the double-headed Bank of England issue department and banking department system, which is unworkable excepting by a bank with the immense resources and in the strong position of the Bank of England. It is believed by every European financier to be a source of the most grave embarrassment and peril to the Bank of England in times of monetary stringencies or panic. The bill proposes this without taking cognizance of the conditions here as compared with the conditions in Great Britain. Should Great Britain wake up some fine morning and find in her coinage system \$500,000,000 of silver as full legal tender at 16 of silver to 1 of gold, she would go to a silver basis in a week, unless all her banks were united, either voluntarily or under compulsion of law, into a solid and indestructible union, as is provided in the Walker bill.

Should the Bank of France, with its hundreds of branches, be dissolved to-day into as many independent and isolated, antagonistic banks as it has branches, as our banks are now isolated and independent and antagonistic to each other, France would go to a silver measure of value in a week. Nothing keeps the paper money of France or Germany at a parity with specie and silver to the "gold measure of value" other than the union in each country of all the banks, practically if not actually branches of one bank and thus brought into a solid union, as is provided for the banks of this country in the Walker bill; and nothing keeps the money of the Empire of Great Britain to parity with the gold measure of value but her coinage conditions, in which there is no "primary legal tender silver money."

Our banks are loosely held together to-day only through the sub-treasury, with its \$200,000,000 to \$300,000,000 idle surplus, and sale of bonds to maintain parity in times of panic, taxing the people millions upon millions to do it, instead of keeping a balance of only \$20,000,000 to \$30,000,000 in the Treasury, as is the case in France, Germany, and Great Britain at comparatively no cost in taxation.

GOLD REDEMPTION OF SILVER.

To provide that our \$500,000,000 legal-tender silver dollars shall be redeemable in gold dollars by the Government, and for keeping an additional gold reserve for that purpose, is one of the most unnecessary, inconsistent, and remarkable, not to say ridiculous, provisions that could well be incorporated in a banking bill. Do they not know that this is demonetizing silver? This seems especially so in view of the ease with which France and Germany carry, at par with gold and as primary money, their great stocks of silver. But the objective claimed as of vital importance to be reached by the Hill-Fowler bill is the elimination of the United States notes from demanding gold of the Treasury, either by making them a part of the bank notes, viz, by substituting for them the "national reserve notes" of the Hill-Fowler bill, to be issued in place of them, or by buying them up by the Government with the taxes collected and then destroying them. The Hill-Fowler bill does not do this by inducing the banks to assume the identical United States notes by making it profitable for them to do so, as in the Walker bill, but by attempting to substitute a new "legal-tender bank note" for them. The reason given for proposing the destruction of the \$346,000,000 of greenbacks is that they "menace our whole financial system in their power to extract gold from the Treasury."

SILVER DEMONETIZED.

But the Hill-Fowler bill proceeds, in the same bill that would destroy them, to add \$500,000,000 of silver dollars to their national reserve bank notes and other bank notes as abstractors of gold from the Treasury, and would have us believe that this is a cure for all our financial and banking ills.

Having experienced the delights of the vision of seeing the United States notes destroyed and of resurrecting a bank note from their ashes, in the proposed "national reserve note," and having exercised the supreme power of making this "national reserve note" the equal of gold as a legal tender, their power grows on what it feeds. They then proceed to destroy the \$500,000,000 silver dollars, as such, and to resurrect them as abstractors of gold from the Treasury; that is to say, they destroy the United States notes in order to save the country from the perils of having \$1,200,000,000 of currency, including the United States notes and resting upon them. In turn these \$346,000,000 rest upon the \$100,000,000 of gold in the United States Treasury. Then they immediately proceed to destroy these silver dollars as such and resurrect them. In addition to the paper money now in the country, and in addition to the bank currency, their bill will call for from \$200,000,000 to \$500,000,000 to add to our \$1,200,000,000. Adding this \$300,000,000 bank currency to the \$500,000,000 silver dollars, and this to the \$1,200,000,000 paper now out, makes \$2,000,000,000. This \$2,000,000,000 is to rest upon the \$500,000,000 of the gold redeemable silver dollars, and these silver dollars in turn rest on only \$25,000,000 of gold in the Treasury.

FINANCIAL WISDOM OF THE HILL-FOWLER BILL.

That is to say, we now have \$100,000,000 of gold in the United States Treasury to redeem \$1,200,000,000 of currency, or eight and one-third per cent of gold to each dollar of paper.

The Hill-Fowler bill proposes to add from two to four hundred millions in bank paper and our \$500,000,000 silver, as abstractors of gold from the Treasury, and rest that \$2,000,000,000, more or less, ultimately on \$25,000,000 of gold in the Treasury, or one and one-quarter per cent of gold to each dollar of paper.

Of course this statement will surprise the authors of the bill more than anyone else who reads it. Their bills bear no internal evidence of any section of them having been brought to the practical test of being carefully "worked out" by trying any one of them on to our present system as modified by them, while every section, paragraph, and line of the Walker bill shows it to have been subjected to that test. Should every dollar of the United States notes be destroyed by the working of the Hill-Fowler bill, all the gold would then be released from the United States Treasury except \$25,000,000, which is set aside to redeem \$500,000,000 of silver dollars. Is it wise to retire \$346,000,000 United States notes and \$100,000,000 gold, and to substitute \$500,000,000 in silver and \$25,000,000 in gold in their identical office?

BANKING CONDITIONS IN RURAL SECTIONS.

At this point the question will naturally be asked by those who live in sections of the country that have not felt the hardship of the present banking law: Why is there any need of amendments to relieve the present situation other than to "reduce the tax on currency," and to

"allow banks to issue currency to the par of bonds," and to "allow national banks with as little as \$25,000 capital in places of 4,000 people or less," as the bankers have been asking to have done for twenty years?

First, under the present law banks of small capital, or of \$100,000 capital, for that matter, can not exist where there are now no banking facilities, and the three amendments proposed would in no way improve present conditions, so as to permit them to exist.

On the other hand, to "repeal half the taxes on circulation," and "allow banks to issue currency up to the par of bonds," would still further reduce interest where it is now lowest and increase interest where interest is now the highest. It would have exactly the opposite effect of the rational amendment of the law provided in the Walker bill, viz, to halve the present rates in strictly country districts while not materially reducing or increasing interest rates in city districts.

INTEREST DOUBLE NORMAL RATE.

To-day interest on bank loans in country districts is nearly double the normal rate, and made so by the law, while they are at the same time made a small fraction lower to borrowers of city banks by the law. Under the present law, the normal rate of interest on the same security on the same time and on the same amount would be about 2.98+ per cent in the three central reserve cities, were no interest paid on deposits, as compared with 7.34 per cent in country districts, and these relative rates are compelled by the law; that is to say, they would be were there any strictly country banks, but there is not one strictly "country bank" to-day. They can not exist under the law as it stands. Under the Walker bill, with the currency provided therein, the rate would be 4.55 per cent in the country as compared with 2.98 per cent in the central reserve cities.

BANK CAPITAL.

Persons will hardly put their capital into a bank unless they are reasonably certain of receiving 6 per cent dividends on the bank stock. In order to show the rates of interest banks must charge under the present law, under the Hill-Fowler bill, and under the Walker bill to pay 6 per cent on the bank stock, I have worked out the following examples of the practical working of the three systems:

In the case of No. 1, formed under the *present law*, a country bank would be compelled to charge 7.34 per cent on its loans to pay 6 per cent dividends on its stock, or 1.34 per cent more than the stockholders could individually loan their money for and get 6 per cent, while a city bank could loan for 2.98+ per cent and pay 6 per cent dividends.

In the case of No. 2 a Hill-Fowler bank in a central reserve city could pay 6 per cent dividends on its stock and loan money at 3.03+ per cent.

But it is shown in the case of No. 3 that a Hill-Fowler country bank must charge 6.0+ per cent to pay 6 per cent on its stock. A rate of interest of 6 per cent would not make it an object to form a bank.

But No. 4, a Walker country bank, could loan money at 4.55 per cent and pay 6 per cent dividends.

No. 5 shows a central reserve city bank can loan money at 2.98 per cent or at less rates under the Walker bill than under the Hill-Fowler bill.

No. 1.

PRESENT LAW, COUNTRY BANK.

Capital	\$150,000.00	
Deposits	57,143.00	
Circulation, 90 per cent of \$37,500 bonds.....	33,750.00	
Total.....	240,893.00	
Deductions:		
Paid for \$37,500 bonds, at \$113.55.....	\$42,581.25	
5 per cent redemption paid on \$33,750...	1,687.50	
15 per cent reserve on \$57,143 deposits...	8,571.45	
20 per cent currency not in circulation....	6,750.00	
		<u>59,590.20</u>
Possible loanable funds.....	181,302.80	
Receipts:		
Interest on \$42,581.45 paid for bonds, at 2.4 per cent..	1,021.95	
INTEREST ON \$181,302.80 LOANS, AT 7.34+ PER CENT.	13,315.55	
Exchange account	1,000.00	
Total.....	15,337.50	
Expenditures:		
Tax on circulation, 1 per cent.....	\$337.50	
Salaries, etc.....	6,000.00	
6 per cent dividend on \$150,000 stock....	9,000.00	
		<u>\$15,337.50</u>

PRESENT LAW, CENTRAL RESERVE CITIES.

Capital	\$150,000.00	
Deposits	650,000.00	
Total.....	800,000.00	
Deductions:		
United States bonds, or 2.4 per cent capital,		
\$3,600, cost	\$4,087.80	
Reserve required.....	162,500.00	
		<u>166,587.80</u>
Possible loanable funds.....	633,412.20	
Receipts:		
Interest on cost of bonds \$4,087.80, at 2.4 per cent...	98.11	
INTEREST ON \$633,412.20 LOANS, AT 2.98+ PER CENT.	18,901.89	
Exchange account	2,000.00	
Total	21,000.00	
Expenditures:		
Salaries, etc.....	\$12,000.00	
6 per cent dividends on \$150,000 stock...	9,000.00	
		<u>21,000.00</u>

No. 2.

HILL-FOWLER, CENTRAL RESERVE CITY BANK.

Capital	\$150,000.00
Deposits	650,000.00
Total	800,000.00
Deductions:	
United States bonds required, equal to 2.4 per cent of capital, or \$3,600; market price, \$113.55; cost of bonds	\$4,087.80
12.8 per cent of capital, or \$19,200 of United States notes exchanged for "reserve note," \$19,200, and 5 per cent redemption fund.....	960.00
Reserve required	162,500.00
	167,547.80
Possible loanable funds	632,452.20
Receipts:	
$\frac{1}{2}$ per cent paid on reserve notes taken	96.00
Interest on cost of bonds, \$4,087.80, at 2.4 per cent..	98.11
INTEREST ON \$632,452.20 LOANS, AT 3.03+ PER CENT.	19,180.89
Exchange account	2,000.00
Total	21,375.00
Expenditures:	
Tax, $\frac{1}{2}$ per cent on \$150,000 capital.....	\$375.00
Salaries, etc	12,000.00
6 per cent dividend on \$150,000 stock....	9,000.00
	21,375.00

No. 3.

HILL-FOWLER COUNTRY BANK.

Capital	\$150,000.00
Deposits	57,143.00
Circulation	150,000.00
Total	357,143.00
Deductions:	
5 per cent on \$60,000 "reserve notes"	\$3,000.00
5 per cent on \$60,000 "bank notes"	3,000.00
5 per cent on \$90,000 "currency notes"...	4,500.00
Paid for 40 per cent to capital bonds required, at \$113.55	68,130.00
Reserve required	8,571.00
Redemption fund on \$90,000	1,000.00
20 per cent currency not in circulation....	30,000.00
	118,201.00
Possible loanable funds	238,942.00

Receipts:

$\frac{1}{2}$ per cent paid on reserve notes taken	\$187.50
Interest on \$68,130 paid for bonds, at 2.4 per cent...	1,635.12
INTEREST ON \$238,942 LOANS, AT 6.0+ PER CENT..	14,352.38
Exchange account.....	1,000.00

Total	17,175.00
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Expenditures:

Tax of 6 per cent on \$30,000 currency notes.	\$1,800.00
Tax of $\frac{1}{4}$ per cent on \$150,000 capital	375.00
Salaries, etc	6,000.00
6 per cent dividend on \$150,000 stock.....	9,000.00
	<u>17,175.00</u>

No. 4.

WALKER COUNTRY BANK.

Capital.....	\$150,000.00
Deposits	57,143.00
Circulation	150,000.00

Total.....	357,143.00
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Deductions:

5 per cent redemption fund, \$120,000 cur- rency in actual circulation	\$6,000.00
15 per cent reserve on deposits	8,571.45
20 per cent currency out of circulation	30,000.00
	<u>44,571.45</u>

Possible loanable funds.....	<u>312,571.55</u>
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Receipts:

INTEREST ON \$312,571.55 LOANS, AT 4.55+ PER CENT.	14,240.00
Exchange account	1,000.00

Total.....	15,240.00
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Expenditures:

Tax on \$120,000 in actual circulation 0.2 per cent.....	240.00
Salaries, etc	6,000.00
6 per cent dividends on \$150,000 capital ..	9,000.00
	<u>15,240.00</u>

No. 5.

WALKER CENTRAL RESERVE CITY BANK.

Capital.....	\$150,000.00
Deposits	650,000.00

Total	800,000.00
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Deductions:

Reserve required 25 per cent of deposit	162,500.00
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Possible loanable funds	<u>637,500.00</u>
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Receipts:

INTEREST ON \$637,500 LOANS, AT 2.98— PER CENT.. \$19, 000. 00
 Exchange account..... 2, 000. 00

Expenditures:

Salaries, etc..... \$12, 000. 00
 6 per cent dividends on \$150,000 stock... 9, 000. 00
21, 000. 00

These examples of six banks show that country banks can be formed under the Walker bill and loan money at half to two-thirds the rates of interest charged by banks on loans at the present time, namely, at 4.55 per cent. They show also that the interest rates by country banks formed under the Hill-Fowler bill must be 31 per cent higher than under the Walker bill.

It will be noticed in example No. 2 of a Hill-Fowler city bank, that the "reserve" required in cash in city banks is..... \$162, 500
 The "reserve notes" the city bank must pay for in United States notes are about one-half what the country bank must buy, or..... \$19, 200
 The gold the bank must have in its own vaults is... 81, 250
100, 450

Balance 62, 050
 Thus the city bank can keep all its "reserve notes" in its own vaults and with its gold still use any lawful money for.... 62, 050

It would not be possible for any one to make a demand upon this city bank for one dollar of gold. So it would be with every reserve city bank in the country under the Hill-Fowler bill.

Take example No. 3 of a Hill-Fowler country bank and the situation is reversed. It will be seen that the "reserve" required is \$8,571, while the bank must buy double the "reserve notes" the city bank buys. Only two-fifths of this reserve is required to be in cash; the other three-fifths may be in amounts due the bank from other banks, and only one-fifth or \$1,714.20 in gold.

It figures out as follows:

The "cash reserve" required is \$3, 428. 40
 \$1,714.20 to be in gold.
 The "reserve notes" the bank must pay for in United States notes are \$37, 500. 00
 The gold the bank must have in its own vaults is 1, 714. 20
39, 214. 20

Its "reserve notes" in excess of those it can use in its cash reserve are..... 35, 785. 80

It will also be observed that the country bank must invest \$68,130 in United States bonds and take out bank notes more than sixteen times as much as the city bank with the same capital. The city bank is only required to invest \$4,087.80 in bonds. The city bank will not bother with any currency. It cuts no figure in its business. But the country bank must pay out this \$35,785.80 "reserve notes" and also its \$37,500 "bank notes," a total of \$73,500. This paper money always finds its way into the city banks to be by them exchanged for the gold of the country banks in redemption and then returned to the country banks.

The Hill-Fowler bill forbids the massing of gold to secure in combination the maintenance of parity.

The Walker bill carefully provides for massing all the commercial gold in the country in the National Clearing House in New York and also in San Francisco in order to make sure the maintenance of parity as is now done under the present law. Not a dollar of gold can be had to-day, nor for thirty years, in redemption of a United States note, from the United States Treasury in Washington. Only in New York and in San Francisco can it be had. Only by this massing of gold can parity in gold redemption be maintained.

The Hill-Fowler bill, on the other hand, divides the gold into dribbles. In banks of \$25,000 there would be about \$285.71 in gold and so on up. In a bank of \$100,000 about \$1,142.86. The \$25,000 country bank is expected to redeem in gold over its own counter \$26,250 paper money with \$285.71 in gold, and the \$100,000 country bank to redeem in gold \$105,000 of its paper money with \$1,142.86 in gold when some crank or combination of panic-stricken people makes a raid on the bank.

The Walker bill provides for massing the gold. The amount the whole 10,000 banks are "required to keep" is from \$200,000,000 to \$400,000,000, in order to make the maintenance of parity absolutely secure, and leave the country banks to redeem the currency they issue as they choose in any kind of lawful money.

There is no other possible way of safely maintaining parity with gold when large amounts of other "lawful money" are in circulation. Our whole monetary system would break down in the first panic under the Hill-Fowler bill, and the Government would be again selling bonds for gold.

NO PROVISION FOR TRANSITION.

Again, there is no provision made to insure safety during the transition, were not the scheme absurd. The first country bank that transfers from the present system, under which the United States Treasury maintains the parity, to the Hill-Fowler system, where the banks are to maintain parity, will have to support with its \$286 in gold the whole \$1,000,000,000 of our paper money or stop issuing its circulating notes. But they say no; the Treasury will still do it. Of course it will still do it; but because it will always have to maintain parity, as now, the Hill-Fowler bill is not worth the paper it is written on. If one bank organized under the bill does not assume the obligation to relieve the United States Treasurer of maintaining parity, will two, or two hundred, or two thousand, or ten thousand? Just how many will be required to organize under the bill to remove from the Treasury the obligation to support the banks as to parity instead of the banks relieving the Treasury of maintaining parity? There is no possibility of the banks taking upon themselves that duty. The Treasury conditions are made worse by it.

Under the Walker bill not a bank organized under it assumes the slightest obligation to assume the maintenance of parity and thus relieve the United States Treasury of that burden until a certain time arrives, decided on by the Secretary of the Treasury, and then in an instant, at a signal agreed upon, every commercial bank in the country is in the system in a flash. All commercial banks are instantly united to maintain "parity," and the United States Treasury is as thoroughly relieved at once and forever from all responsibility as to paper money or coin money, other than police supervision, as is Smith, Brown, or any other citizen.

DEFICIENCY IN BANK FUNDS.

Very carefully prepared tables are published in the appendix to this report which show that the total actual capital of both State and national commercial banks is about \$1,400,000,000, that the actual cash reserve held by them is \$560,000,000, and the total reserve held by those banks is about \$1,000,000,000.

All of these banks would be brought into the national system under the Walker bill.

They also show that the deficiency in 1897 in national-banking funds in the nine Southern agricultural States in which banks were well developed in 1860, is about \$284,000,000—in those nine States alone. It is safe to assume that had national banking been as free in these States—Alabama, Georgia, Kentucky, Louisiana, Missouri, North Carolina, South Carolina, Tennessee, and Virginia—as in 1860, the national-banking funds now in use there, in excess of what they are, would have amounted to \$371,000,000, and would be divided as follows:

As the masses of the people in the South during the slave period used comparatively little currency, checks and drafts were employed out of all proportion to their use in the Middle States where slavery did not exist. The banking funds of the Middle States were, capital 42 per cent, deposits 16 per cent, and currency 42 per cent. Resolving the \$370,933,761, estimated deficiency in banking funds in the above nine States, into the component parts of capital, deposits, and currency, the probable increase in each is shown:

Probable increase in capital	\$155, 792, 680
Probable increase in deposits	59, 348, 401
Probable increase in currency	155, 792, 680

AGRICULTURAL STATES.

Taking the fifteen additional agricultural States that supported cheap money in 1896—Arkansas, California, Colorado, Florida, Idaho, Kansas, Mississippi, Montana, Nebraska, Nevada, Texas, Utah, Washington, Wyoming—the deficiency in banking funds would be fully \$500,000,000.

Under the Hill-Fowler bill the improved conditions for establishing banks are of such a trivial character that no perceptible increase in banks could be made, while under the Walker bill the chances of improvement, based upon the banking conditions existing in 1860, would be such that, in a brief period, banks would be established using additional capital, deposits, and currency to the amount indicated.

Of course the statement is made that this banking capital does not exist and can not be had at the South and in the other agricultural States, because of a lack of personal property in those States. This has not the slightest foundation in fact. There is not a single economic fact to justify that statement. Deducting the value of the slaves, the assessed value of personal property per capita in 1860 was \$85.78; in 1890 it was \$85.44. It is thought by conservative men—students of economic conditions of the South—that since 1890 the personal property has increased certainly one-quarter, and some put it much higher. It is thought that the personal property per capita in 1900, in the Southern States named, will reach \$125, or more. At any rate, what we know of the personal property in the South gives no justification for the statement that the lack of banking funds at the South is due to the poverty of the people there to-day, as compared with that of 1860, but rather it is due wholly to the oppressive national banking law.

CITY BANK FUNDS.

The population of cities in the United States having 10,000 people or more is 20,781,474. The total banking funds of those same cities are \$2,283,320,423. Assuming that the banking funds in those cities serve half as many again people as live in those cities, it would bring the number of people served by that banking capital up to 31,172,211, and would give \$73.25 per capita.

Places in the country of less than 10,000 people have a population of 41,840,776. Deduct from that population 10,390,737 served by the city banks, and it leaves 31,450,039 to be served by the banks in the places of less than 10,000 people, or \$23.38 banking funds, or one-third as much per capita.

CITY BANKS CAN NOT ISSUE CURRENCY.

The fact that the business of the city bank is such that it can not issue to a profit currency notes where currency is issued on the true banking principle, can not be too persistently insisted upon. Where currency is redeemed in the natural way by a city bank, it goes into the city clearing house the next morning with checks, drafts, and bills of exchange against the bank, and in a city where business is done by checks and drafts, and but a very small percentage of currency is used in proportion to the business done, the bank has no possible way of keeping currency in circulation. The only reason they have been able to do so in the last thirty years is because no genuine country banks could exist under the national banking law, and therefore comparatively no currency was issued in the country, and the city banks occupied with their currency the country districts, the country districts paying interest on what they should have had for nothing.

This state of things would end at once under the Walker bill.

NEW YORK CITY BANKS IN 1860.

All the banks in New York in 1856 only issued 15 per cent of currency to their capital. It ran down to 11.42 per cent in 1860, and that currency was issued by those banks that had a country business, although located in the city. The Bank of Commerce, with a capital of \$9,000,000, had a circulation of only \$2,000, one-tenth of 1 per cent of its capital. The City Bank, with \$1,000,000 capital, \$2,000,000 deposits, issued no currency, while the East River Bank, whose name indicates the business of its patrons as with stevedores and with people who come into the city with boats, issued only 40 per cent to its capital.

CHICAGO BANKS.

The Chicago banks have only 2.5 per cent of circulation to their capital. They hold United States bonds to an amount entitling them to take out \$1,215,000 in circulation and have taken out only \$616,365, of so little value is currency to city banks. If all the banks in Chicago were not forced to buy bonds as a license fee to do business probably not a dollar in currency would have been taken out.

INJUSTICE OF 6 PER CENT TAX ON 20 PER CENT OF CURRENCY.

The Hill-Fowler bill exhibits the result of minds exceedingly fertile in devising ways for depriving country sections of banking facilities,

one of which is to tax currency issued in excess of 80 per cent to capital.

As deposits to a city bank are to it what currency is to a country bank, if the currency in excess of 80 per cent to capital is to be taxed 6 per cent, then deposits in a bank in excess of 80 per cent to capital should be taxed at the rate of 6 per cent per annum to make the conditions between city banks doing business by city methods and country banks doing business by country methods equal.

Capital, surplus, and other profits in national banks in the central reserve cities of New York, Chicago, and St. Louis, October 5, 1897.

Capital, surplus, and profits		\$149, 796, 620
Aggregate deposits	\$645, 633, 469	
The Hill-Fowler bill exempts currency from taxation to an amount equal to 80 per cent of capital	119, 837, 296	
Excess of deposits over 80 per cent of capital		525, 796, 173
Six per cent of deposits in excess of 80 per cent of capital—tax would be		31, 547, 770

Newly formed country banks, of \$150,000 paid in capital or less, aggregating \$150,000,000 in capital, immediately upon getting into full operation, the items of their funds, taking the proportions of capital, deposits, and circulation from the condition of the banks in the Middle States in 1860, would run as follows:

Capital paid in		\$150, 000, 000
Deposits		57, 143, 000
Circulation		150, 000, 000
Currency to 80 per cent of capital	\$120, 000, 000	
Excess of currency over 80 per cent to capital	30, 000, 000	150, 000, 000
Tax of 6 per cent on excess currency would amount to		1, 800, 000

The tax of \$31,547,770 on the city banks would be as onerous and unjust to them and no more so than the tax of \$1,800,000 to the country banks on any part of their currency, for currency is to country banks what deposits are to city banks.

SAFETY OF BANKS ISSUING CURRENCY.

The safety of country banks issuing a large percentage of currency to their capital is questioned by the framers of the Hill-Fowler bill, but upon examination it will be found they are much safer than city banks with enormous deposit accounts. A comparison of example No. 2 with No. 4 will make the matter clear.

CITY BANK, NO. 2.

Resources:

Redemption fund	\$960. 00
United States bonds	4, 087. 80
Reserve held	162, 500. 00
Loans	632, 452. 20
Total	800, 000. 00

Liabilities:

Capital	150, 000. 00
Deposits	650, 000. 00
Total	800, 000. 00

(Paid-in capital, \$76,700.)

One-half of loans prove a total loss and the half collected amount to	316, 226. 10
Redemption fund, United States bonds and reserve	167, 547. 80
Total assets	483, 773. 90
Owe depositors	650, 000. 00
Without stock assessment depositors lose	166, 226. 10
Collect the full assessment on the "paid-in" stock	76, 700. 00
The depositors still lose 13.1—per cent.	89, 526. 10

COUNTRY BANK, NO. 4.

Resources:

Redemption fund	\$6, 000. 00
Reserve held	8, 571. 45
Loans	312, 571. 55
Total	327, 143. 00

Liabilities:

Capital	150, 000. 00
Deposits	57, 143. 00
Currency in circulation	120, 000. 00
Total	327, 143. 00

One-half of loans prove a total loss and the amount collected is

Redemption fund and reserve	156, 285. 77
Total assets	170, 857. 22
Pay holders of currency	120, 000. 00
Balance remaining	50, 857. 22
Due depositors	57, 143. 00
Deficiency	6, 285. 78
Stockholders assessment 4.2—per cent.	6, 285. 78

In the case of the city bank the depositors lose 13.1 per cent of their deposits and the stockholders lose all their capital and are also assessed 100 per cent on the amount of it, and in the case of the county bank no one loses a dollar, but the stockholders lose all their capital and are assessed about 4 per cent on the amount of their capital.

FAILURES OF COUNTY BANKS.

During thirty-three years, banks of \$50,000 capital have failed for \$8,000,000 and paid 51 per cent dividends.

Banks with capital to above \$50,000 and \$100,000 capital or less have failed for \$17,000,000 and paid 57 per cent dividends.

Banks of over \$100,000 and \$200,000 capital or less have failed for \$16,000,000 and paid 61 per cent dividends.

Banks of over \$200,000 and of \$300,000 capital or less have failed for \$18,000,000 and have paid 63 per cent dividends.

Banks of over \$300,000 and of \$500,000 capital or less have failed for \$29,000,000, and have paid 64 per cent dividends.

Banks of over \$500,000 capital have failed for \$33,000,000 and paid 66 per cent dividends.

These figures show there is no material difference in the dividends paid by the different classes of banks. Under the supervision provided in the Walker bill not one small bank would probably fail where three have failed under the law as it now is.

LOW RATES OF INTEREST.

A low rate of interest all over the country, as in other countries, is not possible with separate, isolated, unsupported, and antagonistic bond currency banks, such as the Hill-Fowler bill provides. Solitary banks in any country make interest rates abnormally high in the agricultural portions of it, or even by combining them under the bond currency provision of the present law, with its prohibition of "true bank currency" or under the Hill-Fowler bill, which perpetuates the embargo on banks and "true paper money" to country districts and keeps up interest.

When the Government issues paper money directly or robs the citizens of the capital they get together to form a bank and before the bank is allowed to issue currency, by compelling the bank to buy bonds to the amount of the paper money it issues, it makes it impossible for a bank to live in country districts, because to issue paper money by a country bank is the same to it as accepting deposits is to a city bank.

No one thing can be suggested that collects such an enormous tax from the people in country districts in favor of cities. It ruins enterprise in the country and drives small manufacturing into cities.

How our national banking law cruelly robs and cruelly oppresses agricultural States can only be known by the most careful and painstaking investigation.

In so far as this prevails it puts the country at a tremendous disadvantage and out of touch with cities.

THE OFFICE OF BANKING.

The existence and whole office of banking and the use of paper money is of civilized society and a contrivance to substitute the use of "credit paper obligations," which cost the people nothing in exchanging products for coin in the exchange of products, which costs 6 per cent per annum on all coin used. Using paper money reduces the neces-

sity for coin to the lowest practical point, and this economizes expense by using only so much coin as it is necessary to use, thus reducing expense in exchanging products to the lowest practical point.

Banks and paper money are as necessary to modern civilization, in the transfer from man to man of the titles to products, as railways, steamships, canals, etc., are to the transfer of products themselves from place to place. Banks and paper money are only used to transfer the titles to these products. Any hindrance to or increased cost in the use of paper money, or of banks, by compelling an unnecessary amount of coin to be used, or by imposing taxes on paper money, works as much and even a greater injury to a community than a hindrance to or increased cost of the transportation of products. The small use of coin, in proportion to the use of banks and currency, by any people, is the sure evidence of its attainment in integrity, ability, acuteness—in fact, in civilization. Coin to banks and currency, in transferring titles to products from man to man, is as crude as to use the back of man and of the donkey, instead of the railways and the steamship, to transport products from place to place.

RIGHT OF THE PEOPLE TO FREELY USE WRITTEN OBLIGATIONS TO PAY.

At the very foundation of the right of men to life, liberty, and the pursuit of happiness lies the right of men to take and to give verbal and written "obligations to pay," to be satisfied on demand in the future.

To make it wholly impossible for men to exercise this right would relegate the race to barbarism. The right of man to unite with his fellows to give their joint obligation as a corporate person, to be jointly satisfied by them on demand, has become an inextricable part of and is fundamental to the continued progress of modern civilization.

The freely uniting of a certain amount of capital of five or more men and the uniting of those men into a corporate person, now called a bank, and to continue to them the right to give and to take "obligations payable on demand," has come to be recognized as a "right" of the citizen, little less sacred than the right of the "sole person" to do the same thing.

In the national-bank act the Government absolutely overrides this great and fundamental right of the citizens of this country and confiscates to its use capital collected by our citizens without the aggregating of which "exchanges of products" can not be made. This proceeding is never justifiably resorted to excepting in case of war, and this is the only modern nation that has continued or made such a forced war loan during peace.

COMPARISON OF THE PRESENT LAW AND WALKER BILL.

The following in a rough way still further illustrates the workings of a small bank under the present law and a bank under the Walker bill, leaving out the confusing elements of the previous examples:

The present law bank has a capital of	\$100,000
Buys of United States bonds	50,000
<hr/>	
Has left of its capital	50,000
Gets of circulating notes	50,000
<hr/>	
Has to loan	100,000
B & C—10	

It then discounts notes running four months for \$2,000 for \$40 discount each for 50 men. Each man takes a draft on New York, where he owes \$1,000, for the \$1,000 to pay his debt, and takes circulating notes for \$1,000 to use in his neighborhood. This aggregates \$100,000, all the bank has to loan.

The bank must get interest at the rate of 6 per cent per annum on the fifty notes it discounts to pay 6 per cent dividends on its stock.

The Walker bank has a capital of..... \$100,000
It issues its own circulating notes to the amount of..... 100,000

Has to loan..... 200,000

It then discounts the notes running four months of \$2,000 each for \$20 each (for double the number or) for 100 men. Each man takes a draft on New York for \$1,000 to pay what he owes in New York, and the circulating notes issued by the bank for \$1,000 to use among his neighbors. This aggregates \$200,000, all the bank has to loan.

The bank only needs to get interest at the rate of 3 per cent per annum on the 100 personal notes it discounts to pay 6 per cent on its stock.

The premium on the United States bonds, taxes, sinking fund, etc., are so much that no money can be made on currency taken out on bonds.

The Walker bank does the equivalent of this, viz, it charges 6 per cent on the amount of its own capital it loans to the farmer on his \$2,000 note, say, \$20 on the \$1,000; and on the other \$1,000 it charges no interest, but exchanges its own circulating notes for the four month note of the farmer in consideration of the \$20 the farmer paid him on the whole loan.

If the Government issued all the paper money we used, and all the coin money, and no checks or drafts were used, interest would have to be from one-half more to double what it would be were we to use no Government paper money and as little coin money as we can get along with, but used instead all the "bank paper money" the people were willing to use, that the banks could keep at par with coin.

Under the Walker bill interest would not be materially higher or lower in cities, so little paper money can be used in cities. City business is mostly done with checks and drafts. Country people can not use checks and drafts to any great extent. They can only use "bank circulating notes" currency, which is to them the same as transferable certificates of deposits. The longer banks exist in a town, the more checks and drafts are used. Bank notes are the "deposits" of the farmer in the banks as technical "deposits" are such to the city merchant.

Under the Walker bill 3,000 country banks would soon be established where there are no banks now. The farmers can scarcely borrow a dollar now, in many sections of the country, on their crops of hogs, corn, wheat, cotton, hay, etc., soon to be marketed. They could borrow money of Walker banks for half what it could be borrowed for now of banks under the present law, could such banks be established under the present law, which is not possible.

ISSUE OF PAPER MONEY BY GOVERNMENT AND BY BANKS.

When the Government issues the money, greenbacks, Treasury notes, etc., or requires a bank to buy bonds to get it, a bank can only get it by parting with an amount of capital equal to the amount of such

money it gets into its vaults. The rates of interest are not reduced to the people by the use of Government money, whether it be paper money, silver money, or gold money.

When all banks issue their own paper money, as under the Walker bill, and any five reputable citizens can make a bank in such a way that the Government can compel the banks themselves to keep this paper money at par with silver dollars and gold dollars, competition among banks will make interest charged by these country banks that make this money as much lower than when they use Government currency as the amount of this paper money they use bears to the total amount of the loans of these banks. That is to say, from one-third to one-half lower rates of interest, after deducting what it costs the banks to keep their paper money at par with silver dollars and gold dollars, which is only a trifle.

When banks issue their own circulating notes the bank gets current rates of interest on all of its notes that are out of its possession and is compelled by competition thereby to charge lower rates of interest. The amount of such total lessened interest is the interest earned by its notes when out. When such notes are in its own vaults it is losing nothing by having them, for they cost nothing.

When the Government issues all money, say greenbacks, Treasury notes, etc., or silver dollars and gold dollars, the total interest on money loaned by banks that they are compelled to charge all customers is as much more than under the Walker bill as current rates of interest on the whole amount of such money. A bank can only get Government moneys by having its capital depleted by every dollar it has of it in its vaults. Therefore the current rate of interest on it is lost while it is idle in the bank. The only way the bank can stop loss of interest on it is by "unloading it" on other banks or on the borrowers of the bank. When the borrower has it the bank is making no profit on it to enable it to reduce interest rates to the farmer. This is why more and more money is being used by clearing houses in paying balances.

WALKER BILL CONFORMS TO THE SUFFOLK SYSTEM.

The Walker bill conforms to the old Suffolk system of New England from 1840 to 1864 in issuing currency by banks and to that of all other countries except the United States.

The truth of the statement made is shown by trying our system by the facts.

We have an excessive amount of coin—certainly from	
\$400,000,000 to \$800,000,000 more than there is any	
economic demand for—but putting it at the lowest	
amount there is an excessive amount of coin of	\$400, 000, 000
We have paper money earning the banks nothing	1, 100, 000, 000

Total.....	1, 500, 000, 000
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Interest on national-bank loans is necessarily higher than normal, provided our paper money was "true bank currency" issued against the assets of the bank as paper money is issued in every other country, as \$1,500,000,000 plus \$2,000,000,000 loans = \$3,500,000,000 is to \$1,500,000,000, or 42.8 per cent. This shows that with the banks issuing currency and submitting the volume of coin to economic laws interest rates would be reduced from 6 to 3.43 per cent. This considers only national banks.

Adding the \$700,000,000 loans of State banks it makes \$4,200,000,000 to \$1,500,000,000 earning no income. Including these the rate of interest would be reduced 35.7 per cent, or from 6 to 3.86 per cent.

Of course this is only approximately correct, as no account is taken of "current redemption" and expenses of many kinds, or of the sums of paper money not in circulation, but these do not very materially affect the result. It still remains that by enacting the Walker bill, interest rates would be reduced in approximately the proportion indicated, and almost wholly in country districts.

LOANS TO CAPITAL AND DEPOSITS.

That the results shown in the six examples of banks under the present law, under the Hill-Fowler bill, and under the Suffolk system of the Walker bill are substantially correct is proven by the actual experience of banks in the total loans by banks in proportion to their total capital and deposits in 1896 as compared with 1856. There are only two sources of loanable "funds" to a bank when it can not issue its own currency against its assets, viz, capital and deposits. There are three sources of loanable "funds" to a bank that can issue its own currency against its assets, viz, capital, deposits, and currency. All banks before 1864 freely issued currency against their assets with like results of low interest rates in all the States.

I give only a few samples:

	1896.	1856.
	<i>Per cent.</i>	<i>Per cent.</i>
Maine loaned to capital and deposits	84	130
Vermont loaned to capital and deposits	79	157
New York, outside of New York City, loaned to capital and deposits	78	166
The six New England States, including Boston, loaned to capital and deposits	88	125
North Carolina loaned to capital and deposits	88	162

This is the inevitable result in all agricultural sections when a bank can issue its own currency. This shows that money can be borrowed at one-third to one-half lower rates when banks can issue currency as provided in the Walker bill.

On the other hand, the advantage given cities under the national banking law and under the Hill-Fowler bill, in oppression of farming districts, is conclusively proved by the fact that while New York City could loan only 88 per cent to her capital and deposits in 1856, she loaned 97 per cent in 1896, 10 per cent more in 1896 than in 1856; while Maine loaned 35 per cent less, Vermont, 99 per cent less; New York State outside New York City, 113 per cent less; North Carolina, 85 per cent less; and the six New England States, including the city of Boston, 43 per cent less than in 1856.

Notwithstanding these facts, which were before them when the Hill-Fowler bill was compiled, they propose to continue their oppression of the farming communities with little or no relief for four years, and then dribble out relief for four years more, were their bill workable, which it is not.

HOW MUCH CURRENCY SUFFOLK-SYSTEM BANKS ISSUED.

No better banking system ever has been seen than that of New England from 1840 to 1864, known as the "Suffolk system." It was precisely what is proposed for the whole country in the Walker bill. The specie held was 13 per cent to currency issued, and 8 per cent to currency and deposits.

Provisions in the various States were as follows:

IN MAINE.

Banks not to issue currency in excess of their capital paid in, plus the specie in their vaults. Specie deposited in Suffolk Bank, Boston, to be counted as in their own vaults. Penalty tax of 24 per cent per annum on all currency in circulation during suspension of specie payments.

NEW HAMPSHIRE.

Nearly the same as Maine.

VERMONT.

Banks may issue currency to an amount double that of their capital. Penalty tax for suspension of specie payments of 12 per cent per annum on currency in circulation. Penalty tax of 1 per cent per annum on capital if bank fails to redeem its notes either in Boston or New York. Failure to redeem in one or the other of the cities for ten days incurs tax for the whole year.

MASSACHUSETTS.

Substantially the same as Maine and New Hampshire.

RHODE ISLAND.

Substantially the same as Massachusetts.

CONNECTICUT.

May issue currency to amount of capital—must keep specie equal to 10 per cent of deposits and currency in circulation. Deposits of funds in a New York or Boston bank to be counted as specie against deposits and currency, when the currency is redeemed in Boston or New York.

It will be seen that the provisions of the Walker bill are substantially the same as these.

The Walker bill penalty tax for failure to maintain "parity" is one-half of 1 per cent per annum imposed on deposits in order to make the penalty fall equally on all banks. It is on deposits especially that specie should be maintained. It is depositors, not holders of currency, who ship specie abroad and who demand gold. If the penalty tax is put on currency the city banks would wholly escape the tax. The Hill-Fowler bill imposes no penalty for failure to maintain parity.

INJUSTICE TO COUNTRY PEOPLE IN PRESENT LAWS.

Our country people have been so outrageously abused in the banking laws of the country in being deprived of banking facilities during the past thirty years that the very knowledge of "true banking" and

"true currency" has been lost out of the country. This most popular and useful agency known to civilization, viz, the bank, for loaning capital to the people, is hated and hissed, and justly so, were the banks themselves responsible for this outrageous banking system. It is hated for not doing what it is forbidden by law to do, and not for what it does. I stand by the country granger in his protest against his oppression rather than with the makers of Hill-Fowler bills, who, knowing their oppression, "keep the word of promise to the ear and break it to the heart." "Four years hence we will begin substantial relief and you will get it in eight years." They aggravate the curse by saying to him, "Go and come again and to-morrow I will give, when thou hast it by thee." Wait, wait, wait, until four years hence, eight years hence, eleven years hence! We are here under oath to legislate for the relief of our people now, and not to legislate to take effect in the days when our children will wear the mantle of authority and we are in our graves.

I know strong language is not argument, but there are times when men do not serve their fellowmen unless they use language strong enough to clearly characterize outrageous conditions and conduct. Even the Great Teacher characterized persons who bind heavy burdens grievous to be borne and lay them on men's shoulders and then do not touch them with so much as their little finger.

RELATIONS OF CITY AND COUNTRY BANKS.

Cities are built up by building up the country, and cities decay when the country districts decay.

The country banks are as necessary to the city banks as the mountain springs, their streams, and branches are to great rivers, and the country bank is as essential to the prosperity of the country as the city bank to the prosperity of the city.

The whole framework of every bill presented to the Committee on Banking and Currency, excepting the Walker bill, is drawn in despite of this axiom.

The prosperity of the cities can only be in the prosperity of the agricultural—the country—districts of the nation.

Every bill presented to the Committee on Banking and Currency, excepting the Walker bill, denies this proposition.

The oppressions, the rank injustice to the agricultural sections of the country perpetuated in the existing national banking law more than in the errors in legislation in all other national and State laws combined has contributed to the depopulation of the country and the uneconomic and undesirable swelling of city populations.

Men can not borrow money of individuals or of the officers of a bank they do not know, do not meet in their homes, in their churches, in their lodge rooms, in their trading, in the daily walks of life, etc. It is so in the country as much and no more than in the city. Country people can not borrow in cities or in large towns twenty miles from home—in other words, where they are not intimately known—excepting those with rare and exceptional means of acquaintance.

CITY BANK VERSUS COUNTRY BANK.

A strictly city bank in a reserve city, satisfying the infinite variety of wants of its customers, with its large individual deposit account, complex business expedients, and many forms of money obligations, differs very widely from a strictly country bank satisfying the limited

wants of its customers, with its large volume of circulating notes in the place of individual deposits, simple business expedients, and few forms of money obligations. They are as much alike and unlike as a Broadway omnibus and a McCormick reaper. Both are drawn by horses and men ride on both. The city bank with its way of doing business would be as useful in a rural community, or a country bank in a reserve city, as a reaper on Broadway or an omnibus in a wheat field.

The Hill-Fowler bill provides only for the omnibus, and the making of the reaper under it is impracticable.

Under the Walker bill both are kept constantly in view. Both can be constructed, and each used with equal advantage in its proper place.

RELATIONS OF CAPITAL TO BANKING.

In proportion as communities are advanced in both wealth and culture is capital aggregated in banks for the convenience of each and every citizen who, without capital, has sufficient integrity, ability, industry, and wisdom to make it reasonably certain that he will return the capital borrowed and what is agreed upon as interest or rent for its use. In modern society business can not be profitably done without nearly every doer of it has a partner in the enterprise, viz, the bank. Through borrowing of capital from a bank, and that only, it is made possible for the worthy poor boy of to-day to conquer to-morrow the place of the rich man of to-day.

These aggregated banks are of two kinds, and each bears a certain proportion to the aggregate of wealth.

1. The commercial banks, or "banks of deposit, loan, and discount," have to do wholly with personal property, and have capital and cash to about \$2,000,000,000 to \$26,000,000,000 total of personal property. Their aggregate capital is about 8 per cent to the total of personal property in the country. Adding \$2,680,367,000 deposits and \$1,000,000,000 currency, it will carry the percentage of banking funds to total personal property up to about 22 per cent banking funds to total personal property.

2. Trust companies of various names and kinds, such as savings banks, loan and trust companies, life insurance companies, etc., have to do wholly with realties, and have a capital of about \$8,000,000,000 to real estate property of \$40,000,000,000, their aggregate capital being 20 per cent to the real estate in the country.

Capital ceases to be capital when it ceases to afford an income. Capitalists therefore are always hunting for young men of integrity, ability, and industry who will borrow capital of them and pay a small rental on it, while the borrower of this capital makes a new fortune for himself in using the borrowed capital to develop the country.

These reservoirs of capital are the only things in civilized society that enable the man owning no capital to compete with the capitalist. Anything that hinders or in any way prevents the aggregating of capital in any community for the purpose of devoting it to loans to the worthy man who has no capital or not sufficient capital for useful, safe, and legitimate business, or increases interest on capital, is a fearful curse to the country. Very careful and conservative estimates show that the agricultural and suburban sections of our country are deprived of \$800,000,000 of banking funds, as compared with their per capita and city per capita bank funds, as compared with their bank funds to their personal property in 1860 and to-day, or fully 15 per cent to the total bank funds in the country. The Hill-Fowler bill provides the begin-

ning of a modicum of relief to these people in four years, to be consummated in eight years. This final relief is so small as the best as to be unworthy of the effort, and this promise even is of very doubtful fulfillment.

Under the Walker bill the relief in the additional banking funds to the sections of the country now destitute would surely come, and at once.

*** BILL H. R. 10339 AS COMPARED WITH BILL H. R. 10333.**

I am constantly met with the statement, "Your bill is too long; why don't you make it shorter and more simple?" as if a bill dealing with the most complex and worst financial and bank system any civilized nation ever had, and at the same time maintained parity, according to the testimony of writers on finance and of financiers of great experience, such as Hon. Lyman J. Gage, Secretary of the Treasury; the Hon. Charles S. Fairchild, ex-Secretary of the Treasury; the Hon. James H. Eckels, ex-Comptroller of the Currency, and many others, could be "as simple as simple can be."

Certainly bill H. R. 10339 is short and simple enough. I drew it to accomplish two things: To show how unreasonable is the remark quoted, and second, to show how simple a bill would have accomplished in 1866 to 1870 precisely what my bill will accomplish to-day. If it had been passed then it would have saved the country from a sea of troubles. Had such a bill as H. R. 10339 been passed on April 12, 1866, with the bill of that date authorizing the Secretary of the Treasury to sell bonds to secure funds to cancel "United States notes not to exceed \$10,000,000 in the first six months and \$4,000,000 per month thereafter," our difficulties would have ended then and there. It was all the legislation needed then. It would be all the legislation needed to day had we no silver dollars, no United States notes, and no Treasury notes. The law of July 12, 1866, authorizing the retirement of the United States notes, would not have been repealed, as it was in January, 1869.

Walker bill H. R. 10339, in the conditions of 1866 to 1873, is the financial and banking equivalent of Walker bill H. R. 10333 in the conditions of 1898.

Had bill H. R. 10339 passed any time previous to January 14, 1875, the legislation of that date again passed to retire the United States notes would not have been again needed and again passed only to be again repealed on May 4, 1878.

Had our statesmen of that time enacted such a bill the New England banks would have returned immediately to the Suffolk system of current redemption in Boston, a "large central commercial city," which the present law most foolishly and viciously forbids.

New York would soon have joined New England, and every State bank in the country would have been brought into the system precisely as the Walker bill provides for to-day, and New York would soon have taken the place for the whole country that Boston held for New England up to 1864.

In fact, that bill at that time would have given the country, by the necessary but voluntary combination of the banks in the country, precisely what the Walker bill would give the country to-day. There can be no doubt that the banks themselves, without any action of the

*On pp. 240, 241.

United States Treasury under bill H. R. 10339, would have resumed specie payments long before 1870, when the premium on gold touched 14.9, and run down in 1871 to 11.7, etc., and up again to 15.1 in 1875. Had such a bill as H. R. 10339 passed any time between 1866 to 1878, every citizen would have had his "right to life, liberty, and the pursuit of happiness" in money matters restored to him.

All business men, merchants, manufacturers, farmers, bankers—all classes—were clamoring for resumption of specie payments ever after 1866, and they directed and controlled the banks. The banks had two to three times the gold during the whole period from 1867 to 1879 that Secretary of the Treasury Sherman had in the United States Treasury when we resumed in 1879. As a matter of fact, to the banks belongs the credit of the conditions making resumption of specie payments by Secretary Sherman possible in 1879.

While it is true that without the hearty and most active assistance of the banks Secretary Sherman could not, by any possibility, have resumed specie payments in 1879, it is also true that had the Government rendered no assistance whatever the banks could and would have resumed long before 1873 under such a bill as H. R. 10339 as surely as the banks can and will maintain parity between silver dollars and gold dollars and between all our paper money and specie to-day under Walker bill H. R. 10333 as law, for there is no conceivable relief excepting under a law drawn on the lines of the Walker bill.

The Walker bill is simplicity itself as compared with any other general bill that has been before the Committee on Banking and Currency. It is as unjust to criticise the Walker bill of to-day because it is long enough and none too long, and complex enough and none too complex, to meet all the chaotic and complex conditions that do exist to-day, and to surely settle them, and without the slightest shock to our financial and banking conditions during the transition, even during a panic, as it would have been to have criticised the Walker bill, H. R. 10339, offered before 1875, because it "was not long enough" and "complex enough" to meet conditions not then chaotic and not complex.

A condition a hundredfold more difficult than confronted Alexander Hamilton and Albert Gallatin in this country or John Locke or Sir Isaac Newton in England can not be settled by ratiocination, as is attempted by the framers of the Hill-Fowler bill. To solve the problem, patient investigation and severe study are necessary to the brightest and ablest men. Late comers are welcome, but the Hill-Fowler bill shows the result of their insisting on taking the front seats.

What was the Republican party doing in this matter from 1866 to 1873? What is it doing now? What was the Democratic party doing from 1866 to 1873? What is it doing now?

THE SUBTREASURY SYSTEM.

Never before was a practice continued so long after its substance had departed as our subtreasury system. The national subtreasury system as now administered, violates every principle it was established to put into practical operation.

When it was established the idea of Jackson was to keep the Government Treasury entirely independent of banks and to be itself in antagonism to banks.

To-day it has become the fundamental and responsible bank of all banks in its connection with the New York Clearing House, the

guarantor of the value of all banking funds as well as paper money, and the reservoir from which is drawn, in times of monetary stringencies and panic, the gold for shipment and the gold that keeps the solvency of all banks. In fact, it has become the exact opposite of what Jackson made it and intended it to continue to be. The Hill-Fowler bill intensifies its subserviency to banks as the guarantor of the value of their funds and the supplier of gold to banks and to brokers, both foreign and domestic.

Under the Walker bill every one of these conditions would be reversed. The National Clearing House would be first of all the servant of the Government and the guarantor of the Government funds and the receptacle of all gold and the guarantor of parity, and in turn the furnisher of all needed gold for domestic use or shipment, and this at a profit to banks, whose servant it would be. It would be able to protect the commercial gold in the country, as the banks of England, France, and Germany each protect its gold. It would also maintain parity and pay out gold and silver, precisely as does the Bank of France and the Bank of Germany.

EVILS OF SUBTREASURY SYSTEM.

"Whatever may have been the condition of the banks of the country which seemed to justify the establishment of the subtreasury, it is to-day the greatest curse that afflicts the finances of the country. It not only places duties, powers, and opportunities in the hands of the United States Treasurer such as no human being should ever be intrusted with, but it compels him to do what is made a misdemeanor, visited with severe penalties when done by a bank, and would not be submitted to for a day if done by an individual, namely, it locks up the money of the people. The making of any loan upon the security of United States or national-bank notes, or agreeing for a consideration to withhold the same from use; in other words, the "locking up" of money, is made a misdemeanor, and the bank committing the offense is punishable by a fine of \$1,000 and a further sum of one-third of the money so loaned. The officers of the bank making the loan are also subject to a penalty equal to one-quarter of the money loaned.

"This provision of law is not applied to individuals, because locking up money is an offense they do not commit without the assistance of banks. These severe penalties were provided because the locking up of money was an injury to the public; and furthermore, the injury is in exact proportion to the amount of money locked up, and is not made any greater or less by the 'locking up' being done by a bank, an individual, or by the United States Treasurer.

"Yet, in the face of the enactment of a law by the United States Government severely punishing a bank for withholding currency from circulation, it maintains the subtreasury in violation of every sound maxim of finance, in violation of the laws governing the banks, and in the face of the damage to the industries of the country admitted to be done by it every day of its existence, now necessarily inflating and now necessarily curtailing the volume of the circulating medium by the accumulation in or the disbursements from the Treasury."—[Money, Trade, and Banking (p. 81), by J. H. Walker. Houghton, Mifflin & Co., Boston, 1882.]

The Hill-Fowler bill would perpetuate and intensify every one of these Treasury abuses.

The Walker bill would correct every one of them, and that at once.

TREASURY CONDITIONS.

No one who knows them would make a comparison between Hon. John G. Carlisle and Hon. Lyman J. Gage to the detriment of either. Each stands at the head of his profession, Hon. John G. Carlisle in integrity and as a lawyer and eminent parliamentarian, and Hon. Lyman J. Gage in integrity and as a financier and banker. Each has held the Treasury portfolio under a condition of deficit in Treasury receipts to meet Treasury expenditures. One an eminent lawyer under Hon. Grover Cleveland, the other an eminent financier under William McKinley. The strictly "Treasury conditions" were identical under each. Under Carlisle confidence was destroyed by conditions entirely outside the Treasury proper. Because of these conditions we had the panic of 1893, with ruined private credit, the sale of United States bonds at ruinous prices, and its millions and billions of dollars in shrinkage of values and the wrecking of fortunes and distress of the people. Under Mr. Gage, even in war, confidence is assured, and by conditions entirely outside the Treasury proper. The Hill-Fowler bill leaves us in exactly the same condition as Mr. Cleveland and Carlisle found, and the same results will follow the same conditions.

The Walker bill completely separates the United States Treasury from our financial institutions immediately and forever, and makes the Carlisle-Cleveland condition of 1893 impossible.

It is no answer to cite tariffs or financial theories of administrative officers. Assuming that losses would occur under one tariff and gains under another, under the Walker bill as law they could not materially affect the price of United States bonds or cause a panic originating in the condition or administration of the United States Treasury, for the Treasury would be eliminated from finance and banking. Opinions as to the changes or threatened changes in the management of the United States Treasury could not affect the business of the country, for Treasury conditions would be fixed by law, and unalterable by a Secretary.

Our Treasury and banking conditions would be absolutely independent of each other, each under the management of its own officers, and neither could control or materially affect the other.

Our financial system would then be founded upon a rock like that of France. Our system then would be more like that of France than that of any other country, but superior to it as institutions built up from the bottom, like those of this country, are more enduring than those built down from the top, like that of France and its bank.

When specie payments were suspended in 1870 gold went to a premium of only $1\frac{1}{2}$ per cent in the paper money of France, and soon fell to 1 per cent. It did not rise again until the payment of the indemnity to Germany, and never rose above $2\frac{1}{4}$ per cent premium at any time, and was at that point only for a short time—and this with France conquered, its government destroyed, and lying helpless at the feet of Germany.

With our inexcusably vicious Treasury system, and wholly because of the union of our banks with the quick assets of the Treasury and the making of the soundness of our currency dependent on the price of United States bonds, a gold dollar was worth during 1862 \$1.13. It sold for \$1.45 in paper money after Gettysburg on July 3, and after Vicksburg fell on July 4, 1863, and when our final victory was assured. After Sherman captured Atlanta, September 2, 1864, a gold dollar averaged to sell all through 1864 for \$2.03 in paper money. Then no doubt existed as to the stability of the United States Government. During Sherman's march from Atlanta to Savannah and up to Virginia

in the early spring and until Appomattox on April 8, 1865, gold sold for \$1.57 in paper.

The salvation of France when her Government was utterly destroyed and a Committee of Safety was trying to make terms with her conquerors camped in her capital and Germany held her chief places, the Bank of France stood like a shaft of marble in surrounding chaos, a beacon of liberty to her people. Look again at this significant fact. A gold dollar during all that time could be bought for \$1.01 in French paper money, excepting for a few months after peace it went up in price to \$1.02½, in her paper money, for a brief time.

The Hill-Fowler bill is potential only in such financial humiliations for the future as those from 1862 to 1879 and of 1893, as surely as under like conditions history will repeat itself.

Under the Walker bill they would be impossible. It would correct every evil. As independent, self-sufficient, and even stronger than the Bank of France is its system of union of every commercial bank in the country into one whole. A system democratic to each bank and still a unit in a completed whole.

WASTE OF THE PRESENT SYSTEM.

The direct and inevitable waste in the present system demands immediate action. The Treasury has only kept its place in the New York Clearing House and kept the parity between silver coin and gold coin and between our paper money and specie by keeping in the Treasury an average available cash balance of \$204,000,000, including "agency accounts," for the eighteen years from 1880 to 1897, inclusive—about \$120,000,000 in free gold. Allowing for a "working balance" of more than England, France, or Germany averages to keep—say \$35,000,000—leaves \$170,000,000.

Collected by taxes from the people and needlessly kept in the Treasury, \$170,000,000, worth to the people, 6 per cent	\$10, 200, 000
The needless expense of the subtreasury.....	1, 000, 000
Annual Treasury loss.....	11, 200, 000

It was stated by Secretary Gage and Ex-Secretary Fairchild, and is conceded by all writers on finance, that all currency that is issued, as it is in Great Britain, France, Germany, and all other nations excepting the United States, and "kept out" by banks, is earning the banks the rate of interest charged its customers on loans, and that it invariably lessens the rates of interest charged in the same proportion that the average currency actually out in circulation bears to the total loans and discounts of banks. Under the present banking law there is practically nothing made on bank currency when banks are compelled to buy bonds to get it at the prices prevailing from 1860 to 1892, and in any prosperous times. There is over \$1,000,000,000 of paper money in circulation in the country. At least \$800,000,000 would be circulated by banks if the Walker bill was made a law; or if it was issued here as it is issued in all other countries, at 5 per cent, it equals \$40,000,000. That would then be saved to the people in lower rates of interest on bank loans.

At the very least estimate of the cost the direct and indirect tax on the people is \$50,000,000 per annum. It is really many millions more,

mostly falling on the agricultural sections of the country, as large city banks buy United States bonds as an investment.

Adding to this loss the premiums paid on United States bonds the Government was forced to buy with the taxes on the people accumulated in the Treasury, in order to save our whole banking system from wreck, and the losses from monetary stringencies and panics which are wholly chargeable to the system, it can be conclusively proven to any body of unprejudiced, plain men that hundreds of millions into the billions would not cover actual unnecessary and inexcusable loss in recent years. The conditions that prevailed in 1893 are sure to recur again to a greater or less extent unless the bank act is wisely amended. Some aspects of the situation even now are more threatening and portentous of evil than they were from 1880 to 1892.

In view of the incontrovertible facts already stated it appears that the solution of our financial and banking ills is not possible by any bill drawn on the lines of the Hill-Fowler bill, or any bill yet presented to the Committee on Banking and Currency, excepting only the Walker bill, H. R. 10333.

COMPARISON OF HILL-FOWLER BILL AND WALKER BILL.

The Hill-Fowler bill is written in obliviousness of the fact that banking is wholly a voluntary business and comparatively few of those engaged in it receive pay. Banking law should contain no mandatory provision that by any safe permissible form of application of small pressure can be avoided. The Hill-Fowler bill is fatally mandatory in several matters.

The Walker bill, in this respect, is wholly different. It sets up only a very few very wide boundaries and allows banks to manage their own business in their own way as far as it is safe to the people who borrow money from them.

The Hill-Fowler bill does not relieve the United States Treasury from the current redemption of every form of paper money and from any responsibility whatever for maintaining the parity of our various kinds of money.

The Walker bill securely does both.

The Hill-Fowler bill does not devolve these duties upon the banks of the country.

The Walker bill securely does it.

The Hill-Fowler bill does not allow banks to issue "true bank currency," viz, currency against their assets, to any proportion that would foster country banks.

The Walker bill allows its issue to the amount of the capital of the bank.

The Hill-Fowler bill makes no attempt to securely unite all the commercial banking associations of the country into one compact system to securely and safely do the things it proposes.

The Walker bill securely does it.

The Hill-Fowler bill runs counter to all writers on finance and the judgment of practical financiers and bankers, who all agree in the following as of the first importance in providing a paper money currency, viz, that it shall be—

1. Safe.
2. Freely issued.
3. Abundant.

4. Uniform.

5. Elastic.

The currency provided in that bill fails at every point. It is far from being as safe in being guaranteed by the Government as that of the Walker bill. It is neither as freely issued, as abundant, as uniform, nor as elastic.

MONEY IN EXISTENCE.

The Hill-Fowler bill takes the six kinds of paper money: *

1. United States notes (legal tender).....	\$346,681,016
2. Treasury notes.....	101,575,280
3. Currency certificates.....	29,130,000
4. National-bank notes.....	228,203,926
5. Gold certificates.....	37,466,149
6. Silver certificates.....	398,768,504

Legal tender coin: †

8. Gold.....	760,274,281
9. Silver.....	461,180,422

and proposes to destroy three kinds of this paper money, United States notes and gold certificates and national bank notes, and substitute three new kinds, all "bank currency" notes:

National reserve notes,

National-bank notes,

National currency notes,

leaving seven kinds of paper money afloat, as now. (The Treasury notes will be disposed of by coining silver bullion to pay them as the country grows.)

WALKER BILL APPROVED.

Every word that discusses general principles in the report accompanying the Hill-Fowler bill approves the Walker bill and condemns that bill, and yet their bill continues the hardships of the present system. The report says:

"The ideal condition will be reached when, the person having made the necessary deposit, the bank can furnish him either a check book or its notes with equal ease and at equal cost, leaving the customer to select the form of demand obligation which will best serve his legitimate business purposes. As a matter of fact, the same management of the bank which will render the check safe will make the note safe. But, as has been said earlier, the note is to go everywhere and be used by people unacquainted with each other or with the bank. To facilitate its use, therefore, it must be issued under a system which can be readily understood and which will give to the people generally such assurance of the goodness of the note that it will be accepted without hesitation by everyone.

* * * "It is obvious that the issue of a banking currency based purely upon assets, without either bonds or reserve notes, will involve no risk of undue inflation or of loss to the note holder.

* * * "The people will have the use of nearly double the amount of coin and currency at about one-half the rate of interest they are now compelled to pay. Thus the capacity to make larger loans means the

* In existence June 16, 1898, per Treasury report.

† Estimate by Treasury Department for June 1, 1898.

capacity of the banks to reduce interest rates without loss of profits. It means that if any bank undertakes to resist the natural law of decreasing interest under increased facilities, new banks may be formed *without sinking their capital in bonds purchased at a premium*, and may compete for the legitimate profits afforded by reasonable interest rates. More than this, a currency based upon commercial assets, and not rendered rigid in volume by the deposit of special security, comes back promptly to the issuing banks for redemption. * * *

"Mr. A. O. Eliason has examined all the bank failures whose accounts have been closed, numbering one hundred and one, and found that had all the banks in the national system issued an amount of currency equal to their capital, or one hundred per cent, the assessment on the same to cover losses would have been infinitesimal, being only one-nineteenth of one per cent per annum."

After thus approving most heartily and thoroughly the principles of the Walker bill, which provides the annual collection from the banks of four times the amount necessary to make the Government safe in guaranteeing the currency notes banks would put in circulation, they present a bill which leaves 60 per cent currency to capital without the guaranty of the Government, and also compels the country banks to "sink their capital in bonds purchased at a premium" to the tune of 40 per cent to their capital, and furthermore discredits their currency issued against their assets by twelve disabilities.

The lack of appreciation by the framers of the Hill-Fowler bill of true principle and practice in issuing and redeeming paper money is shown by their proposition to destroy the "endless chain," as follows:

"Believing that this bill, if enacted into law, will relieve the Treasury by destroying the 'endless chain,'"

Secretary Gage and ex-Secretary Fairchild, as everyone knows is true, testifying in answer to the chairman, recognized the "endless chain" of currency redemption as an inherent and necessary condition to sound paper money, as follows:

The CHAIRMAN. Can you suggest a more apt illustration of the necessary inevitable constant flow of currency in and out, coming in contact potentially with the specie it represents, than an endless chain which never ceases for an instant to move potentially or actually, and that anything that impairs any link of the chain does the currency system injury? Can either of you gentlemen suppose a more apt illustration?

Secretary GAGE. I think there are a dozen you might use.

The CHAIRMAN. Will you suggest any one of the dozen?

Secretary GAGE. Say individual buckets. We have adopted the endless chain as a figure of speech, which probably conveys nearly the idea involved, namely, that whoever has demands against the Government or anyone else can take those demands and have them realized in redemption money, in specie. If these obligations are again issued, the new holder can do the same, and so there is a sort of circle established, or, it may be, on the one hand, the notes flow out, and in the course of the movement of trade or commerce or distrust the notes come back in a circular movement. That is not a horrible thing; it is natural, reasonable, and proper, and the issuer should never complain. Let him meet his liabilities on demand.

The CHAIRMAN. Is not that what will take place in making a redemption fund?

Secretary GAGE. I think it is.

The CHAIRMAN. Can you suggest anything further, Mr. Fairchild?

Mr. FAIRCHILD. No, sir; I think that is perfectly true.

CURRENCY PROVISIONS OF THE HILL-FOWLER BILL.

The Hill-Fowler bill puts the mark of Cain on its national currency notes. This money is for our country people. Not a dollar of this money will be issued by banks in redemption cities which have half the paid-up capital of national banks.

- SEC. 30. (1) It is taxed 6 per cent per annum if issued above 40 per cent to capital.
- SEC. 30. (2) If in the vaults of the bank and not in use this excess over 40 per cent is still taxed 6 per cent.
- SEC. 33. (3) In liquidation only gold coin can be deposited to cancel these notes.
- SEC. 23. (4) Must put up with the Government 5-per-cent gold "guaranty fund" on them, in addition to the current redemption fund it puts up.
- SEC. 22. (5) Has a separate "current redemption" from the other two kinds of bank money.
- SEC. 22. (6) Must be marked "plainly and prominently," so as to attract attention to its being a poorer kind of money, that it "belongs distiuctively to some one clearing-house district."
- SEC. 22. (7) Can not be paid out by any bank out of its "redemption district."
- SEC. 22. (8) Has a clearing-house district made especially for it. The district is not for and does not include the other two kinds of bank currency.
- SEC. 22. (9) No reserve 5-per-cent or other fund is provided for their current redemption in exception to the other two kinds of notes.
- SEC. 14. (10) No funds of an insolvent bank can be used to pay any of these notes until the other notes are paid.
- SEC. 15. (11) That the Government has no interest in making this "currency note" good money is rightly made conspicuous in the bad form designedly given these notes by this provision. "It [note] shall also bear upon its face the statement that it is issued in accordance with the provisions of this act." These things will sufficiently damage these "national-currency notes."

Under the Walker bill there is provided a currency note with as strong a Government guaranty as now. Only such notes are used in Canada, Scotland, France, Germany, England, and all other first-class nations. The Walker bill adds the guaranty of the United States Government. The Walker bill provides that everyone of them shall be immediately paid by the United States Treasurer in case of the insolvency of the association issuing them. The Walker bill makes an appropriation to pay these notes of every association in case of its insolvency. The Walker bill provides a way for the United States to collect of banks and have on hand several times more money than it can ever pay on this guaranty.

The framers of the Hill-Fowler bill are not willing to have the circulating bank notes provided in their bill and issued by the Government as money, used to pay the "salaries and other debts on demand owing by the United States to individual corporations and associations within the United States," but finding such a provision in the law as to national-bank notes, repeats it.

Under the Walker bill no such discrimination against any form of our money is made. All kinds of paper money are made and kept as good as the best by the Government.

GREENBACKS NOT DESTROYED BY THE WALKER BILL.

Neither does the Walker bill destroy the United States notes. The Hill-Fowler bill does destroy them. The Walker bill keeps them exactly as they now are, and puts their current redemption on the banks. The Walker bill proposes to destroy all the gold certificates and silver certificates and pay out to the people the gold and silver dollars in their place. Thus the Hill-Fowler bill provides six kinds of paper money in permanency, no one of them legal tender, in violation of sound banking principles, while the Walker bill provides but one, viz, currency notes, in accord with common sense and sound banking.

The Hill-Fowler bill does not make the United States Government as now responsible for the immediate payment of every dollar of the currency notes issued by it to a bank in case of insolvency and directly out of the United States Treasury, and without qualifications or delay and regardless of all contingencies.

The Walker bill makes the Government of the United States the guarantor of every dollar of currency issued by it to a bank as now, and makes an appropriation from the Treasury in the body of the law to secure the immediate payment of such notes by the Treasurer as certain as it is to-day.

The Hill-Fowler bill makes confusion in redemption by providing two distinctive redemption agencies for its three kinds of circulating bank notes, and one of them outside the banking system.

The Walker bill provides one redemption for its one kind of bank notes, and that inside the banking system.

The Hill-Fowler bill appears to be drawn in the interest of large city banks. It gives such banks every advantage and unfairly discriminates against country banks.

The Walker bill is drawn in fairness to large banks and small banks, city banks and country banks, for farmers, for merchants, and for manufacturers.

The people having been thoroughly educated in the idea that no true bank currency, that is to say, currency issued against the assets of the bank and relying wholly upon them for payment in case of insolvency, can be safe for them to have in their pockets, therefore it becomes absolutely necessary to have all currency guaranteed by the Government, as now. A guaranty may be given in five different forms—by a mortgage, by pledging bonds, by an agreement, by indorsement, and also by certifying to the genuineness of a paper and that the certifier is in possession of funds to pay it, like certifying a bank check.

All but the note secured by mortgage depends wholly upon the solvency and amount of capital possessed by the party making the security in proportion to the amount guaranteed, whether it be a person or the United States Government. No one can deny that an appropriation made in the body of the banking law out of any moneys in the Treasury not otherwise appropriated to pay the notes of an insolvent bank is as good a security and more easily availed of, and is tantamount to a Government bond. "To guarantee" is the synonym of "to secure," if made by the same party and without mortgage. To argue that a United States Government bond is a better guaranty or security than

an appropriation in money in a United States law is to argue that a "promise to pay" is better than "cash in hand."

The compensation to the United States Treasury for guaranteeing the currency notes issued by the banks would run as follows:

On \$200,000,000 of United States notes carried by banks, at 2½ per cent.....	\$5, 000, 000
Maintaining parity on \$500,000,000 of silver dollars, for which all the other bills propose to deposit 5 per cent gold in the Treasury, which would equal \$25,000,000 at 2½ per cent.....	625, 000
One-fifth of 1 per cent tax on \$600,000,000 of currency....	1, 200, 000
Gain on that part of the currency destroyed and never presented for redemption, as proved by the thirty years' experience of the Treasury, two-fifths of 1 per cent on \$600,000,000 is.....	2, 400, 000
	<hr/>
	9, 225, 000
Saving in cost in handling the United States Treasury....	1, 000, 000
	<hr/>
	10, 225, 000
The necessity under present conditions of carrying an immense amount of money collected by taxation in the United States Treasury, \$175,000,000 at 2½ per cent....	4, 375, 000
	<hr/>
Saving per annum to the United States Treasury ..	14, 600, 000

This at 2½ per cent. It should be reckoned at 5 per cent or more, \$30,000,000 per annum at least. Not a farthing of this \$30,000,000 of saving would become an expense on the banks.

The provision in the Walker bill requiring every commercial bank to assume its equitable and proportionate part of the United States notes, according to its actual capital, and in a way to make them an advantage to the banks, is only one incident of the provisions of the Walker bill. It is necessary during the period of transition from that of their present isolated condition into the cooperative system provided for, and is in no sense essential to or necessarily a part of the Walker cooperative scheme. This is made unequal and a hardship in the Hill-Fowler bill. They are so small in the amount each bank is required to take and so equitably distributed by the Walker bill as to be an advantage and not a burden to any one bank, as the banks are allowed to issue an equal amount of currency. They remain as now, being issued under the same law and a United States legal-tender note, while the Hill-Fowler bill destroys them. The Walker bill provides for their continued existence and provides for their equitable annual redistribution among all commercial banks in the country as long as the national banking system shall last.

ADVANTAGE OF A NATIONAL CLEARING HOUSE.

Did the New York clearing house or the national clearing house provided for in the Walker bill have a legal existence, it would not be at all necessary to require individual banks to specifically assume any amount of particular United States notes in the cooperative scheme provided in the bill. The thorough union of the banks and incorporat-

ing the clearing houses is the real substance of the Walker bill. There is not now an incorporated clearing house in the country to deal with in a banking law.

ONE GOOD THING IN THE HILL-FOWLER BILL.

The Hill-Fowler bill apparently, but not actually, disposes of the United States notes in something of the same method as the Walker bill, at the beginning, in devolving the United States notes on the banks, but it surely and absolutely fails. It changes the essence of the present legal-tender United States notes as much as it does their name and equitable distribution. They become non-legal-tender "national reserve notes."

The Hill-Fowler method may, at first glance, look like the Walker method, but they certainly are as different in essence as the poisonous toadstool from the nutritious mushroom. Its method of distribution violates the principle of equity as between new banks and old banks, in devolving them upon the old banks in the beginning, now in operation, and leaves them on these banks, a disproportionate burden for all time to come.

CURRENCY NOT LESS THAN \$10.

The Hill-Fowler bill deprives banks, mostly country banks, of \$274,000,000 of circulation in \$5 notes by needlessly forbidding any bank to issue any currency under the denomination of \$10.

Under the Walker bill the limit is \$3 or under, practically allowing no bill under \$5, thus allowing a circulation by banks in this one item \$274,000,000 more than the Hill-Fowler bill, and reduces rates of interest to borrowers as \$274,000,000 is to the total loans by banks.

The Hill-Fowler bill provides a currency on more than half of which the rate of interest on loans in using it will have to be varied every day in the year to pay the same dividend on the stock of the bank, and the issuing and withdrawal of which will be governed by the price of United States bonds in the market and the time they run, as now, and not by the demands of business.

The Walker bill provides a currency to pay the same dividends. The interest on loans in the use of it will be the same every day in the year.

The Hill-Fowler bill only makes room for its bank currency in addition to its substitution of reserve notes for

United States notes by retiring gold certificates.....	\$37, 000, 000
National-bank notes.....	227, 000, 000

Total	264, 000, 000
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The Walker bill pays out gold for United States notes...	146, 000, 000
Gold certificates retired	37, 000, 000
National-bank notes	227, 000, 000
Silver dollars in reserves	200, 000, 000
Five-dollar notes, forbidden in Hill-Fowler bill	274, 000, 000

Total	884, 000, 000
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\$200,000,000 United States notes are to remain and can never be destroyed.

CURRENCY CONDITIONS.

The Hill-Fowler bill changes present currency conditions by a very small degree, and would not effect a reduction of interest on loans sufficient to enable banks to be formed in country districts.

The Walker bill provides for such a change as to allow banks to issue "true bank currency," viz, against their assets, and reduce interest in those districts from one-third to one-half.

Under the Hill-Fowler bill a bank of \$100,000 capital will have to surrender from \$25,000 to \$40,000 of its capital in the purchase of bonds as a license fee to do business, when it commences business.

The Walker bill does not require the bank to become a bondholder by a single dollar in order to do business, and not to surrender any part of its capital, excepting in case of insolvency.

Under the Hill-Fowler bill the Comptroller can not know what the condition of a bank was, as shown by its books, on any given day, excepting the days on which the "bank examiner" went through it.

The Walker bill provides for a daily report of its condition to the Comptroller, and the examiner will have before him the condition of the bank on every day to verify when he goes to the bank.

The Hill-Fowler bill isolates and makes peculiar each bank, and makes it liable itself alone to be called upon for gold for every note it issues and by every banker who gets one. This isolation makes it unsafe for any bank to pioneer in the system even if it would be safe when the system was in full operation, which it is not. This is true of all banks that go into it until all are in, and then the country bank will be in a perilous condition.

Under the Walker bill every bank is absolutely safe during the transition, as the condition of no bank entering the system is affected in its obligations or duties until a given time, when the system becomes instantly in full operation.

No bank that enters into the system is affected by the provisions of the bill until all commercial banks in the country come under its provisions.

Immediately upon that event, existing United States notes assumed by any bank lose their identity so far as they belong to any particular bank that has its name printed on the back of them as responsible for their current or ultimate redemption, gold being massed in the national clearing house to redeem all of them.

They are then to the bank as the gold they hold, only appearing with gold in their cash reserves.

CHARACTER OF NOTES.

The Hill-Fowler bill not only compels the bank to buy "national reserve notes" of the Government (strictly a bank note) and pay United States notes for them, which provision may put them at a premium, but it requires the bank to put up a 5 per cent gold current redemption fund for them, so the bank only gets \$95 for every \$100 it pays out.

The Walker bill keeps the identity of the present greenbacks and only prints the notes of the bank on the back of the identical greenback. It allows the banks to give nearly every kind of money for them excepting bank bills. All money can not be "cornered," as United States notes. The Walker bill requires the Government itself to put up the 5 per cent current redemption for its own notes. Thus the bank gets \$100 legal-tender money in exchange for each \$100 it pays in.

The Hill-Fowler bill continues the present law forbidding banks under any circumstances to use their "reserves" for the very purposes for which they are kept.

The Walker bill permits banks to use their "reserves" in any legitimate way.

Under the Hill-Fowler bill, as under the present law, every operation of the Treasury would expand or contract the currency to the serious injury of the business of the country. Witness the outcry all over the country that the Treasury is contracting the currency and injuring business in collecting the pay on any debt due the Government.

Under the Walker bill whatever sum the Treasury had or failed to have available, would not affect the volume of the currency of the country by the smallest fraction. It would be in the national clearing house where the people could use it.

Under the Hill-Fowler bill, as under the present law, national-bank currency notes, which are certificates of deposit and the people's money, are a freak money. They are forced out of circulation when the credit of the Government is best, business most active, and the people need the most money; they are forced into circulation by the banks when the people do not need them and can not use them, and the Government is distressed, as in 1893 and 1894.

Under the Walker bill it would be for the interest of the banks to issue the most money when the people needed it, and to just as large an amount as the people could use. The competition between banks in forcing it out will make it just as cheap as money can possibly be issued under any system and kept "good" and honestly used by the people, and when they most need it. That part and only that part of the currency which the people can not profitably use will be forced back to the banks.

Under the Hill-Fowler bill, as under the present law, the United States will have the highest interest rates in the most expensive currency system of any first-class nation.

LOW INTEREST UNDER THE WALKER BILL.

Under the Walker bill interest on loans will be as low, and this all over the country, as anywhere in the world. Currency will be issued to the people by the Government, not at 2 per cent interest, as the Populists want, but for nothing, to any five persons that get together capital enough to guarantee the safety of the currency they take and to the amount of their combined capital, as is done in every country, the United States alone excepted.

BOARD OF ADVISERS.

Under the Hill-Fowler bill, as under the present law, there is no way for the Secretary of the Treasury to avail himself of the expert assistance that is absolutely necessary to him to properly discharge his duties, and that every banker in the country has in his board of directors his clearing-house committee and banking associates, etc. To-day, if the Secretary seeks any advice he thereby inaugurates a panic—the very panic he may be seeking to avert.

Under the Walker bill the reverse is true. It provides for the assistance of the Comptroller, nominally, but really for the Secretary of the Treasury, a board of seven men—men who have risen to the very highest eminence in their profession. They have not attained to their places

by favor, but have conquered them by hard, diligent, continuous work for years. Their position at the head of the greatest financial institution of the world, developed in the Walker bill, not by appointment, but by conquest, will place them in a position not only equal to that of the directors of the Bank of England, but far above them.

Their attainments will rank in finance and banking with the justices of the Supreme Court of the United States in law. Their salaries will come to them naturally, as their duties are met, and from the banks, not from the United States Treasury.

The prizes for party workers provided in the Hill-Fowler bill, at an expense of \$23,000 to the Treasury in the triple-headed Comptroller, make more conspicuous by contrast the excellence of the provision in the Walker bill for this board of advisers. In the Walker bill the interests of the plain people of the country find protection in the hands of their special representatives, viz, the President, Secretary of the Treasury, and Comptroller of the Currency, who are given ultimate control. On the other hand, the highest efficiency and economy of service are secured to the banks by their officers and by the board of advisers.

PROTECTION OF GOLD RESERVES.

The Hill-Fowler bill affords no chance to the United States Treasury or to banks to protect its gold by banking methods, while united banks can protect themselves surely and safely.

The Walker bill affords banks the same chance to protect themselves against unreasonable depletion of their gold as the banks of France, of Germany, of England, and other countries do. Under it no call for gold under any circumstances can be made on the United States Treasury. It would be of as much indifference to the country what the Government paid out as what John Jones, Sam Smith, or anyone else paid out.

The Hill-Fowler bill provides no way of ending the liability of the United States Treasury to furnish to anyone demanding it all the gold needed by banks, or by domestic or foreign brokers, for speculation or to ship abroad.

The Walker bill ends it the day it goes into operation.

NO RELIEF TO THE TREASURY BY THE HILL-FOWLER BILL.

The Hill-Fowler bill holds out no inducement in any form for the banks to assist in relieving the United States Treasury of the current redemption of one dollar of United States notes in addition to the amount their bill forces them to take, viz, \$157,872,024—less than half of them.

The Walker bill, in addition to what it requires banks to take, has so large an inducement to banks to assume them and wholly and immediately relieve the Treasury of all of them, in allowing banks to issue an amount of currency equal to the amount of United States notes they assume the current redemption of, that the banks are restricted by the bill in the amount they can take.

PROTECTING REDEMPTION GOLD.

The Hill-Fowler bill, in full operation, makes the isolated and helpless country banks furnish to the isolated but powerful city banks not only all the gold they need but all the gold needed in the whole system.

The country banks, in turn, would demand the gold they needed of the United States Treasury, making conditions worse than now—in the city banks putting the country banks between them and disaster, while now the city bankers or brokers, or foreign brokers wanting gold to ship, go straight to the Treasury and not to city banks or country banks.

The Walker bill combines all the commercial banks in the country into one whole to furnish gold and maintain "parity," and masses all the gold in the country in two or three centers of trade to protect each and every bank with these masses of gold coin.

The Hill-Fowler bill compels the division of gold in 3,000 to 10,000 small parcels and the isolation of a little gold in each bank. Each bank is required to keep its gold in its own vault for itself alone and redeem its own notes in gold only. The country bank can not, in the nature of the case, keep enough gold to protect itself against a senseless scare among its customers or from being blackmailed by any powerful bank, broker, or any operator, either for revenge or for pelf.

The Walker bill compels all the banks to combine to maintain parity and to protect the gold of each solvent bank.

CLEARING-HOUSE CONDITIONS.

The Hill-Fowler bill requires as for twelve years, from 1879 to 1891, the United States Treasury to take all the risk and be at all the expense of the clearing-house system and the current gold redemption of legal-tender and Treasury notes. Then, and it will be the same again, confidence could not be maintained in such empirical practices without a surplus in the Treasury as large as was then held—hundreds of millions, a large part of it in gold. In every other country in the world the banks are required to assist and sustain the Government. The Hill-Fowler bill would, as now, compel the Government to support the banks.

Under the Walker bill the United States Treasury would only touch the national clearing house as a fiscal agent and depository of public moneys, having as a guaranty of the safety of such deposits the whole \$2,000,000,000 of cash reserves and banking capital of the country as a guaranty fund for its payment by the national clearing house. The Treasury could in no event incur any loss or be put to any expense, as it would be the only depositor of money in that association. Except in the Walker bill, or its equivalent, there is no possible way of avoiding the continuance of enormous loss to the people.

It provides a more effective and far safer connection of the Treasury of the United States with the principal banking clearing house in the country, and relieves the United States Treasury from taking all the risks and being subject to all the losses that are involved in the clearing-house business of the country, which risk it carried from the resumption of specie payments in 1879 to about the middle of 1891, at an expense to the people, incurred in taxation, of about \$12,000,000 a year.

The Hill-Fowler bill contemplates the continued use of the New York clearing-house certificates, which are sure to prove at some time a most dangerous and unsatisfactory emergency currency, as compared with legal-tender currency, to all excepting the banks which compose it. Banks in other parts of the country have already been brought into very great peril by their use.

Under the Walker bill United States legal-tender notes are the emergency currency issued to allay panics. Their advantage over "bank currency," as emergency money, is incalculable.

OFFICE OF THE COMPTROLLER OF THE CURRENCY.

The Hill-Fowler bill abolishes the office of Comptroller of the Currency and creates a "triple-headed" executive department, thus violating every principle of prompt, efficient, and responsible executive action in the head of affairs, and still further by limiting their terms of office. It perpetuates this gross injury to the service at an increased expense of \$20,000.

Under the Walker bill the office of the Comptroller of the Currency remains as now, excepting the Comptroller is made many times more efficient.

The Hill-Fowler bill assumes that a whole community can be arrested, tried, and punished, in providing that every bank in the country shall be put in liquidation immediately, if gold payments are suspended by banks, for any cause, or for any time, longer or shorter. If an earthquake occurs in Charleston, S. C., the whole city shall be razed to the ground, because earthquakes thereafter may be normal to it. Such extravagant remedies overreach themselves, and are equivalent to no opposition to the thing deprecated, and no penalty at all.

Under the Walker bill a penalty tax of one-half of 1 per cent on deposits in all commercial banks, amounting to \$13,401,836 per annum, is imposed during the default.

CURRENT REDEMPTION.

The Hill-Fowler bill provides the most cumbersome, expensive, annoying, and impracticable machinery for the current redemption of the three kinds of bank currency it creates that could be devised, and it makes it so inflexible by legal provisions with one class of notes redeemed in one manner and two kinds in another place and manner, as to create endless confusion.

It provides for the division of the United States into territorial "current redemption districts." This division of the country into redemption sections is made to apply to only one of the three kinds of bank-currency notes provided for in the bill—"national-currency notes." It also provides that these notes shall be redeemed in one way and at one place, and the "national-bank notes" and the "national-reserve notes" shall be redeemed in another way and at another place—and much more of the same sort.

It makes all three kinds of its bank notes a legal tender between banks, but provides that no bank shall pay over its counter on a check, etc., to a citizen or to other banks a "national-currency note" if the note is not in the same district that the bank issuing it is located in, unless its redemption in that district is provided for.

Territorial divisions rigidly fixed and the notes to be issued in that division to be made for that division only, is as impracticable as to restrict the mail service of the country in the same way.

Under the Walker bill the banks are simply required to "do the thing," and left absolutely free to do it in the cheapest, quickest, and safest way possible—in any way satisfactory to them and agreeable to the Comptroller. It is for them to decide and to change the way and place as often as a new railway, turnpike, or city road is built, or one town outstrips its rival. Banks must vary from time to time their ways of doing, in the nature of the case, always subject to the approval of the Comptroller.

Under the Walker bill the one kind of bank note provided for, paid out by any bank anywhere will naturally, immediately, and instantly, after it has done its work, find its way back to the bank that issues it as a letter dropped in the post-office in any hamlet finds its way to its destination. Each bank bill will find its way back to the bank that issues it in precisely the same way and in the same package with the check, draft, bill of exchange, or other money obligation issued by the same bank after it or they have done their work and at a tithe of the expense in time and money of the Hill-Fowler plan. It never will occur to anyone to ask what they are redeemed in. They will be redeemed in "bank funds" that all banks agree on and that maintain parity, or all banks will incur the penalty tax.

UNREASONABLE USE OF GOLD IN HILL-FOWLER BILL.

The framers of the Hill-Fowler bill see only gold in our monetary system. They see little in it to preserve to the people who made it. They do not hesitate to assume the duties and exercise the right of the Committee on Coinage, Weights, and Measures. They demonetize silver. They destroy the United States legal-tender notes. They reverse the policy of the country, not only as to gold and silver, but as to paper money, adding two more kinds to the present bank-note money.

They remove the guarantee of the Government from a large part of the bank money used by the people. There is not the slightest excuse for such radical measures.

In the Walker bill there can not be found a section, a paragraph, a clause, a line, or a word that makes the slightest discrimination between any two of the various forms of our coin and paper money, gold, silver, United States notes, Treasury notes, bank notes, etc.

Its author sought only one end, viz, to compose the ills and to correct the injustice in existing conditions, created by law, and in doing so not to unnecessarily antagonize the views of a single citizen in the whole country.

VISIBLE GOLD.

There was in the country "visible gold" (that is to say, besides all the gold in private hoards and in the pockets of the people) in banks, in the United States Treasury, etc., in 1896, \$421,236,388. It has increased since to nearly \$600,000,000. Not a dollar of these millions of gold was available to our banking and currency system excepting that in the United States Treasury, and no one is responsible for "maintaining parity" but the Treasury. We have more gold in proportion to our requirements than any other country, only a fraction of it in touch to keep the parity of our \$1,000,000,000 currency.

The Hill Fowler bill continues the same inexcusable policy and aggravates it. It requires an immense amount of gold, but still leaves the United States Treasury ultimately responsible for maintaining "parity" and to furnish to banks all the gold they demand of it.

The bill requires the banks to carry one-half the cash

reserve required in gold	\$144, 000, 000
The United States Treasury to carry	136, 000, 000

Unvarying total amount required	280, 000, 000
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Treating silver and United States notes simply as currency, it requires the banks to redeem their notes in gold on demand.

The allowing the use of "national reserve notes" in redemption is only nominal. Each bank stands alone to redeem in gold its notes. Assuming that country banks will take out 60 per cent of currency to capital, it works out in this way:

The reserve city banks keeping 50 per cent of this required cash reserve in gold and on notes will keep in gold	\$119, 282, 035
Country banks, 50 per cent of cash in gold	27, 466, 179
Country banks, on \$267,913,749 bank notes, 5 per cent in gold	13, 395, 687
Total of	160, 143, 901

As currency and deposits are identical, this is equivalent to requiring 51.2 per cent of cash reserve in city banks to be in gold and an equivalent of 74.3 per cent of the cash in the country banks to be in gold. The \$13,395,687 fund to be kept in the United States Treasury.

HILL-FOWLER BILL FAVORS CITY BANKS.

The city banks will escape all responsibility for maintaining "parity," for they will take out no currency. They will keep the "national reserve notes" they are required to take in their "cash reserve," changing them with each other for that purpose, the national reserve notes required in the central reserve cities being only 12 per cent to their cash reserve, in all other reserve cities only 53 per cent to their cash reserve. Not a dollar of their notes will ever be presented to the "gold current redemption fund" to draw out one dollar of gold.

On the other hand, the national reserve notes country banks are required to take, being 182.6 per cent to their cash reserve, and the amount of bonds they are required to take for "national bank notes," will make 335.2 per cent to their cash reserve, they can use only 14.3 per cent of these notes in their cash reserve. They will therefore be compelled to "pay out" all the balance, the whole equaling about \$158,000,000, besides the \$100,000,000 bank notes.

Under the old Suffolk system the total currency used averaged to be redeemed five times a year.

CURRENCY FLOWS TO COMMERCIAL CENTERS.

All currency flows to the commercial centers, to be returned to the country banks through "current redemption." The bill compels every dollar of this \$158,000,000 each time it is presented for redemption to be paid in gold. It puts the gold redemption fund outside of banks and into the United States subtreasury. This is done to make sure that the mandate of the law compelling actual gold redemption is obeyed. The actual gold or gold drafts must be used in redeeming it.

Five times a year on \$158,000,000 makes about \$70,000,000 of gold a month used in redemption and constantly flowing from country banks into city banks; \$800,000,000 each year if only \$158,000,000 of national-bank currency and national-reserve currency is used.

How do you like this bill, wholly in the interest of the city banks? Will a bank ever be organized under it?

Where are the country banks to get their gold? Out of the United States Treasury? How is the Treasury to get this gold? Of course the city banks will kindly hand it over to the Government in pleasant times, when everything is balmy. How when it storms? How about

1893? How about another Cleveland-Carlisle administration? It is as sure to come as history is to repeat itself. Sell bonds, of course! Sell \$163,000,000 bonds at a loss of \$40,000,000, as Cleveland did, or \$1,000,000,000, and just as many as unscrupulous banks or foreign brokers may determine.

The Hill-Fowler bill leaves the United States Treasury absolutely unprotected, the sport of the most unscrupulous money changers and gold brokers that can be found anywhere in the world.

A cablegram costs but little. The door of the United States Treasury opens, for the delivery of gold, into every European broker's office—Israelite or Christian.

PROBLEM OF SILVER REDEMPTION.

But one of the most remarkable hallucinations developed in the bill is the belief that with \$500,000,000 silver in circulation, averaging to pass through banks in deposits from traders five times a year, or \$200,000,000 a month, the people will pay the traders in certificates or in coin. If the banks can not get them to present to the United States Treasury for gold, all existing banking customs must be reversed. Remember, the bill demonetizes silver dollars and provides for their gold redemption at the Treasury. It provides only \$25,000,000 gold, and that the Treasury must keep good, to redeem in gold all silver presented to it. The only way the country bank can get the gold to make the compulsory gold redemption of the circulating notes is to get it out of the United States Treasury or beg it of the city banks. Problem: With \$25,000,000 gold stock in the Treasury to redeem \$200,000,000 a month of silver, how many bonds must the Treasury sell per month to do it? Or, how much gold must it buy directly or indirectly of the banks? Or, how will it run the New York clearing house as an adjunct to the United States Treasury? How long will Andrew Jackson lie quietly in his grave, or who cares whether he lies quietly or uneasily?

ASSUMING UNITED STATES NOTES.

Under the Walker bill not one of the present unjust or objectionable banking or Treasury conditions will remain. The city bank will have to assume the current redemption of United States legal-tender notes equal to $12\frac{1}{2}$ per cent of its actual capital, and the strictly country bank, just formed, $12\frac{1}{2}$ per cent of them to actual capital.

The central reserve city bank will not be let off with buying 2.4 per cent to its actual capital of bonds and 12.8 per cent of national reserve notes, and the new country bank have to buy 25 per cent of both, as in the Hill-Fowler bill, and the other central reserve cities only 5.5 per cent of bonds and also of 16.5 per cent of national reserve notes to new banks 25 per cent of both bonds and notes. It requires no bonds whatever, and serves every bank alike.

The Hill-Fowler bill provides for the disposition of only \$157,872,000 United States notes by banks. It only requires the taking of them by national banks. It holds out not the slightest inducement for banks to assume one dollar of them more than the law compels them to take.

The Walker bill requires all commercial banks, national and State, to assume an amount equal to $12\frac{1}{2}$ per cent of their actual capital, which would dispose of \$168,071,000. From paying out the Treasury gold \$146,000,000 would be disposed of. The losses are estimated at \$12,000,000, leaving a balance of only \$20,000,000 for banks to assume.

The Walker bill allows banks to issue currency against their assets at once for every dollar of United States notes they assume. This inducement is so great, that among the six thousand State and national banks and new banks there would be found enough to immediately take up many times this amount.

The Walker bill immediately adjusts the holding of United States notes among all banks, so that any bank having an excess will be relieved of the excess immediately—as soon as any bank is in the system.

The Hill-Fowler bill provides no protection to the specie of any single bank. Any excitement in its neighborhood is liable to wreck the most solvent isolated single bank.

Under the Walker bill, the gold of all the banks is massed to defend the gold of each individual bank, by the combination of all banks, so that no "run" could possibly be made on any one bank, and all the banks combined are too strong to meddle with.

HILL-FOWLER BILL UNFAIR TO COUNTRY BANKS.

The unfairness of the Hill-Fowler bill as between city banks and country banks is further illustrated by the percentage of bonds to their actual capital each is required to buy. The bill is carefully drawn in the interest of banks that are interested in speculation in bonds as much as it is in the interest of banks faithfully serving their business customers.

It requires of the central reserve city banks, as a license fee to do a banking business, the buying of United States bonds to the amount of 2.4 per cent of their actual capital. Newly formed banks must buy bonds to the amount of 25 per cent of their capital. Other reserve cities the amount of 5.5 per cent of their actual capital, against 25 per cent of capital of banks newly formed.

This bill would not have gotten out of the committee if it had not been so drawn as to meet the wishes of those who were determined that no bill should be reported that did not first of all protect this bond privilege to banks, and this to the sacrifice of the legitimate commercial bank, and of the advantages of a true bank currency.

Banks that bought bonds at 80 to 90 cents on the dollar of their value in prosperous times must have preserved to them the privilege of taking out currency on the bonds while waiting for the 10 to 20 per cent profit, that they may loan the currency they take on these bonds to country districts that are prohibited from having their own banking funds by the national law. And this to add to the profits of banks in speculating in bonds or still more to favor banks in localities which have an excess of banking funds for commercial uses and are investing them in bonds.

BRANCH BANKS.

The Hill-Fowler bill authorization of branch banks is very bad economics as compared with encouraging the local independent bank, and still worse statesmanship.

It finds no justification in the policy of our free banking system or in any amendment of it proposed in this bill.

It is unwise to permit powerful city banks to establish branches in places of 4,000 inhabitants or less. The putting its local agent in a place with no interest in it other than the money he can make out of it for his nonresident employer, means that no independent local bank,

managed by its citizens, can be established in the town, and if one is there it must go out of business.

In nine cases out of ten local banks in towns are formed by public spirited citizens to get a fair return on the capital they put in the bank, but still more to build up the town, by assisting other citizens to capital with which to do their business.

The agent of the city bank may for a time loan money, in "good times," at rates to drive out the country bank, and in times of stringency the funds with this country agent will be sure to be immediately returned to support the city bank. The customers of the country agency will be sacrificed to the necessities of the parent bank.

Generally there are two stores in a town. In times of excitement each is the headquarters of one political party. The agent of the parent bank knows the politics of his city employer, and again the bestowal of his favors is liable to be influenced by his own politics.

But our choice must be made between one great "United States Bank" with ten thousand branches, and on the other hand ten thousand independent local banks, united together, that all in union may support each, and thus all together make each secure in times of stringency or in threatened or actual panic, as in the Walker bill.

There is no possible relief of the Treasury condition or any other way of saving to the people a loss now made of \$50,000,000 to \$60,000,000 annually in excessive interest charges. It can not be done by the isolated banks of the Hill-Fowler bill.

INDEPENDENT LOCAL BANKS.

Under the Walker bill independent banks will be formed in every considerable town by its leading citizens and in the immediate future.

Each bank will necessarily have in its direction the two storekeepers. It will necessarily have Republicans, Democrats, and Populists in its management. There are not enough men in either party alone so situated as to maintain the bank.

The four chief agents in civilization are the home, the church, the school, and the bank. To-day every man, rich or restricted in his means—merchant, manufacturer, farmer, or what not—must at times have more or less assistance with money borrowed of banks, or suffer great loss in lower prices for his products or shrinkage of value of his property. Millions are thus lost every year by farmers and others in the United States because banks can not live in country districts under the law as it now is.

But still more the bank is the greatest instrument of substantial progress, in helping forward wise schemes and advising against the unwise.

It is in the directors' room of the country bank that talk never ceases as to how the progress of a town can be secured, property be made to increase in value, and a greater home market for the products of the farm secured; better and cheaper freight rates, better markets everywhere for the home, shop, and factory; better county roads; a gas plant; better country and town buildings; better schoolhouses, better church edifices, better everything. When five or more reputable citizens of a town get their capital together to form a bank, it means that the town must take on new life and every citizen of the town will be more enterprising and successful.

In the bank not only all theories of coinage, paper money, credit, and business methods are discussed by the directors and officers of the

bank, but by every business man and farmer in the neighborhood—by every man who goes into the bank—not only discussed, but tested in practice.

The Walker bill conserves and magnifies all these forces for good in encouraging the formation of local banks. As compared with the good done by an independent country bank, with its immeasurable progressive influences for good, what can the single excellent individual and honest money lender do, who is sent into the town by the city bank?

A bank established in a town serves the whole body of towns adjoining, and would reduce prices on goods to the farmers very considerably. It is said goods are uniformly sold at retail, where cash is paid, from 5 to 10 per cent less than where payments are made only once or twice a year. The country merchant is now the farmer's banker, at a cost to the farmer in increased prices on all the farmer buys of from 5 to 10 per cent over what the prices would be were there a bank in his neighborhood. He could borrow money of the bank on his own note, which he could pay at the dates at which his hogs, or horses, cattle, wheat, corn, oats, rye, flax, or cotton, etc., were ready for market.

CLEARING HOUSES.

The Hill-Fowler bill undertakes the impossible in laying obligations on clearing houses having no legal existence.

Under the Walker bill every clearing house in the country is made a body corporate to deal with under the law and brought into the system, and every commercial bank as well.

The Hill-Fowler bill needlessly antagonizes, in very many of its provisions, nearly every notion, opinion, economic and political, and the experience of our 70,000,000 of people.

WALKER BILL OFFENDS NO PREJUDICES.

The Walker bill takes cognizance of every notion, opinion, prejudice, etc., of gold men, silver men, greenbackers, Government sub-treasury men, and Government currency 2 per cent loan men. Not one of them can consistently vote against the Walker bill. Every one of them claims to desire that all paper money and coin money shall be kept at a parity, which the Walker bill provides for doing.

The Hill-Fowler bill, with its restrictive features, and annulling their charters at the end of a year, could have only one outcome to all national banks, viz, to drive every one of them out of the national system and into reorganizing under State laws, or drive them out of business.

The Walker bill, on the other hand, leaves banks far more freedom than now to safely conduct their business under it and brings every "commercial bank" into the national system and makes the position of every one of them absolutely secure in any event, excepting in making unsafe loans and from dishonesty among its officers.

SOUTH AND WEST WOULD DEVELOP BANKING UNDER WALKER BILL.

Bank funds are now so abundant in the New England, the Eastern, and Middle States that they can not find employment in strictly commercial business. A large proportion of them are now invested in United States and other bonds. One hundred million dollars and more, because of their abundance, are now loaned in Europe on call. Pass the Walker bill and allow the Southern, Western, and Pacific States to

fully develop their banking and currency interests under the only law yet proposed that makes it possible to them to do so, and interest rates on loans made, on the same security, to the same amount, and on the same time, would be very nearly as low all over the country as in cities, and lower than in any European country, not excepting Great Britain. Europe could not keep gold unless her interest rates were as high or higher than ours.

If, besides, a banking committee of the House could be appointed with sufficient wit to report and secure the passage of the international American bank bill, within a comparatively brief time the money center will be moved from London to New York or Chicago.

HILL-FOWLER BILL NOT DRAWN ON ECONOMIC PRINCIPLES.

Finally, the Hill-Fowler bill, like the existing national banking law, is not drawn on any recognized principles of economics and sound banking principles. Its requirements, prohibitions, and penalties are not justified by experience.

The Walker bill is drawn in accord with true economic law and sound banking principles, and every requirement, prohibition, and penalty is justified by the testing of every line of it by the experience of the good and bad State banks for years previous to 1862, by the experience of our national system for thirty years, and by the experience of France, Germany, Great Britain, etc.

If anyone will point out an excellence in the banking laws of any country not included in it, or a provision in it not consistent with experience and the very best results of financial and banking experience of the world, when it is shown the bill will then be corrected accordingly, or abandoned. I only remark that one bank, with all other branches, or all banks as integral parts of one whole, are only admissible.

If any performance fell so far short of the announcement of the play on the bill boards as the various bills referred to the Committee on Banking and Currency, or prepared by some members of it, have of the commendations of them sent broadcast over the country by the Monetary Commission, the audience would do as much credit to their sense of justice as they would discredit to their patience, by mobbing the performers.

RECAPITULATION.

The Hill-Fowler bill does none of the following things, the doing of which is made certain by the Walker bill:

1. The Walker bill makes sure the maintenance of parity between all forms of our existing money by the banks.
2. Retains the actual use of gold and silver money by retiring all silver certificates and all gold certificates.
3. Does not impound, retire, or change the existing United States legal-tender notes.
4. It provides for only one kind of paper money, viz, a national-bank bill as securely guaranteed by the Government as the present national-bank notes.
5. It relieves our hazardous situation in case of panic or reverses in war.
6. It reduces interest rates on loans by country banks from one-third to one-half.

7. It absolutely and forever relieves the United States Treasury of the current redemption of any form of paper money by putting it on banks.

8. It does not pile up vast sums of money in the Treasury to create discontent among the people.

9. It furnishes no needless opportunity or encouragement to the hoarding of gold.

10. It furnishes a currency the hoarding or destroying of which makes lower the rate of interest by banks and helps the United States Treasury.

11. It gives every dollar of currency as explicit and available a Government guarantee as now.

12. It unites all banks of the country in an organization to guarantee the parity of all United States notes, silver coin, gold coin, and national bank notes, as solid and secure as the Bank of France, and more so than the banks of any other nation excepting France.

13. It builds up this fabric by units as separate, distinct, and independent as is the citizen in a town who, acting together with his fellows, makes a body politic.

14. It thus takes careful cognizance of every phase of political and economic thought among the people.

The Hill-Fowler bill takes no cognizance of the political situation, and needlessly offends the great mass of the voters.

Bryan's vote, 6,500,000; McKinley, 7,000,000.

Bryan 2,000,000 crazy for silver.

2,000,000 frenzied by the present banking and currency situation and care nothing for free coinage of silver.

2,500,000 care nothing as to what principles the Democratic platform preaches or for silver. They are for the "machine."

6,500,000

1,000,000 Republicans are earnestly for the unlimited coinage of silver, but are more for what the Republican party represents in other things than for silver.

6,000,000 voters are more or less suspicious or opposed to national banks, and almost wholly on account of the use of United States bonds by banks to get currency notes on.

15. The margin of $3\frac{1}{2}$ per cent of sound-money voters is dangerously small. We must win from those among the people who want a better currency system enough votes to make sound money safe, and must also keep the 1,000,000 Silver Republican voters for maintaining parity.

16. How can we do it?

Not by telling the people that we have changed the paper money they will hereafter carry in their pockets into bills *not guaranteed by the Government as the Hill-Fowler bill does*. Not by giving the people anything any less *secure* than they now have. But that in changing the paper money and leaving out the bonds we have *kept the Government guarantee*.

17. Neither can we tell the people when we meet them face to face in their primary meetings that we have given them two kinds of paper money—one they can never lose a dollar on, however poor the bank issuing it may be, for the Government is behind it; and another that

they must look to the bank only to pay in case of insolvency. As a party measure, such a statement would be *worse than to do nothing*.

18. We had better stop here and now, and carefully examine our position as to all the bills before us, Fowler bill, Gage bill, McClary bill, Hill-Fowler bill, commission bill, Walker bill.

The first section of my bill involves this question of what currency we shall provide.

What inducements, what reason, can we give for the change from what now is?

What are the charges made against national banks?

National banks, \$100,000 capital. (1) Banks buy \$100,000 of bonds, on which they get 4 and 5 per cent interest. Then they (2) take them to the Government Treasury and get \$90,000 currency for the bonds, and loan the currency, getting (3) from 4 to 10 per cent interest on this currency.

Interest on the bonds averages $4\frac{1}{2} + 4 = 8$ per cent.	} gotten by banks.
$4\frac{1}{2} + 6 = 10\frac{1}{2}$ per cent.	
$4\frac{1}{2} + 8 = 12\frac{1}{2}$ per cent.	

The usual reply:

(1) Every dollar of currency is secured by the pledge of a United States bond in the Treasury of the United States.

(2) You can not have a safe currency unless its payment is made sure by the guarantee of the United States.

(3) No holder of a currency note has ever lost a dollar on a note of an insolvent bank since we had national-bank notes. Unlike the old State banks.

(4) We have the best banking system in the world, because our currency notes have absolute security in the guarantee of the United States.

Rejoinder:

(1) Secured currency. What good does that do us? It may be secured, but we have no currency in our part of the country, and can not get it.

(2) We can not borrow it at any price.

(3) We have plenty of property—hogs, horses, cattle, sheep, hay, oats, corn, wheat, but no money.

(4) We want, and will have, more money.

(5) What good is it to us that currency is absolutely safe to the holder if we can not get any to "hold?"

Reply:

(1) Money is plenty. There never was so much money.

(2) The Treasury reports show double the money now for each man, woman, and child that there was before the war or after the war closed.

(3) Anyone who has anything to sell can get money enough.

(4) Anyone can borrow money that has anything to borrow it on.

Rejoinder:

(1) I know money is *not* plenty. I do not care what the Treasury or any other "*reports show*."

(2) We are determined to have more money.

(3) We never had any more things to sell, nor more of them, than now.

(4) But we have to sell them immediately when they mature.

(5) We can not borrow any money to hold them until we can get fair prices.

(6) We sell them, and when the speculators have skinned us of all we have raised at *low prices* we hear that prices have gone up 5, 10, 15, or 20 per cent.

(7) We will try the unlimited coinage of silver if we can not get anything else.

Reply:

(1) Unlimited coinage of silver will do you no good. How are you going to get the silver after it is coined?

(2) The Government can only get it out by paying it out.

(3) You can not get it unless you work for it or sell something for it which you have worked to raise, etc.

(4) A 50-cent dollar can not help you.

(5) Even that will not be given you, etc.

Rejoinder:

Yes; I know that; but I can not be any worse off. The bankers and their friends and neighbors get all the money they want. I can borrow no money when I have as much property in hogs that will be marketed in three or four months. My wheat, corn, oats, barley, horses, beef, etc., are as good as any man's property. I can not be any worse off, and I will try unlimited coinage of silver anyway, and take the chances.

This is not argument or reason, but it is exactly the condition of mind 6,500,000 voters are in, or worse.

Reply:

WHAT CAN BE SAID ON THE STUMP—

We are called gold bugs, gold-standard men, etc., etc. We are not single gold-standard men, if you mean by that that we have changed. We are now where we have been since the Government was born—for having the best money in the world; and will keep each form of our money—paper, silver, and gold—at a parity with every other.

HOW THE WALKER BILL HELPS THE PEOPLE.

People ought to get paper money for the asking, if they will keep it as good money as the world ever saw, and not other ways.

(1) Any of you five men can get together \$25,000, which is as little capital as can be made to pay expenses in a bank and make it safe, and can go to the United States Government and get \$25,000 of notes, paying only the cost of printing. Then the five men can make the \$25,000 of notes they get their own notes by having the president and cashier sign them. Then these five men can circulate them as money. But you say that is the way they used to do before the war, and we do not like that kind of money.

(2) Yes; but the Government did not guarantee that money, and it does this money. The money I am talking of is guaranteed by the United States just as surely as it is now. It is exactly the same money as we now have. It has the Government guarantee, as we have always told you it must have, in order to be good money. The only difference is this:

Now, the Government issues its bond, sells it to the bank, and the bank puts it back in the hands of the Government that made the bond, takes notes for it, goes home, and makes those notes its own, exactly as under our law, by signing them by the president and cashier of the bank, and uses them as money as now. But now the Government takes the capital

of the banks so the people can not borrow it, but pays the bank 4 or 5 per cent interest on the bonds, and the bank also gets interest on the bank-note money it got on the bond. Under our law the Government pays the bank nothing. The Government makes the notes we have provided you precisely the same money as to securities as the present notes, in case the bank fails, by writing in the statutes that every one of the notes shall be immediately paid out of the United States Treasury if the bank fails; and the Government shall then take all the property of the bank to pay itself with the property of the bank, and, besides that, it makes all the banks pay a tax on all these notes all the time, and enough to make up any loss it could possibly make in paying these notes, and several times as much as any loss could be.

(3) What, then, have we done?

A. We have given you a paper money as much guaranteed and made secure by the Government in case the bank fails as now—the same as it has always been.

B. The people have always complained that the banks got interest paid to them twice, once by the Government on the bonds put up and then by the borrower. We have stopped the Government interest to banks on the bonds by taking out of the law the right of only the bondholder, as you have said. You have always said “a man must become a bondholder to get paper money.” Our law allows any five reputable citizens to get it without having to first buy bonds and then put up its \$25,000 capital in the bonds as a guaranty to keep their bank notes as good as our greenbacks.

C. We have done more. We have put upon the banks the duty of keeping all our money—greenbacks, silver dollars, gold dollars, and bank notes—each and all as good as the best money in the world by keeping all at a parity.

Every greenbacker says that must be done.

Every man favoring unlimited coinage of silver says that must be done.

Every bank man says that must be done.

Our law does exactly what all classes of people say they want done.

D. It cost the United States Treasury from \$12,000,000 to \$20,000,000 a year to keep our money at par, which is taken out of you by taxation, in the last twenty years. We have stopped all that, besides the hundreds of millions in indirect taxation. It has been cheap at its cost, rather than not have it done by anyone; but now the banks must do it in future, as banks do in all other countries, and at no cost to you, or cost to them, as to that matter.

E. We have also required in the bill that when a bank note gets into New York, Chicago, or any other city it shall be sent home, to be loaned there. They can not pile notes up in New York by the hundred million under our bill, as they do now.

F. As any five of you can get together and form a bank, with the money to put up in order to make the bank notes you get secure and not be obliged to use up your capital in first buying bonds, money can not be “cornered” or excessive interest charges be made on it by banks.

G. Under our law you can borrow such money nearly one-third (certainly one-fourth) less than the interest now is on our present bond money, for the reason that bond money uses up the capital you put up in buying the bonds.

H. Under our bill the people have the \$25,000 capital to borrow, and

\$25,000 bills also, as they do in Canada, Scotland, France, Germany, and every other country, and can therefore loan money as cheap here as in Europe.

Remember, in all this talk and in no talk ever made was the mind of a single one of the average voters, making three fourths of our voters, ever cleared up on the proposition that the banker did not get 4 to 5 per cent on his bonds, and 4, 6, 8, or 10 per cent interest in addition on the currency paid out by the banks.

That belief remains; and that belief and the further fact that there is now no bank in many considerable centers of business throughout many sections of the country to make the people loans at reasonable rates of interest, and, still more, educating a body of citizens connected with banks to post up the citizens on the real facts, and thus steady public opinion with their knowledge and experience, has done more to prepare the minds of the people to receive the seed of the error of unlimited coinage of silver by our country, without the help of other countries, than its adherents have done to propagate that error.

The only conceivable cure of it is in setting a back fire in increased free but sound bank currency.

The people have a moral right to this free and "true bank currency," such as the people in every other country have, such as is provided in the Walker bill, H. R. 10333.

Not one of these statements can be truthfully made of the Hill-Fowler bill.

BANK OF ENGLAND.

In addition to what has been already said in objection to grafting on to our bad banking system the one bad feature of the otherwise most excellent Bank of England system, I wish to say that the belief of some sincere friends of reform—that we can correct admitted evils by a system of Treasury bookkeeping, as in the Bank of England, while \$1,000,000,000 to \$1,200,000,000 still remain as demands for gold on the United States Treasury—is the most fatuous of all.

The Bank of England system of issuing currency could by no stretch of the imagination be thought by sound financiers to have any chance of adoption in England to-day were it an original proposition.

If the Bank of England system was not urged on us *ex cathedra*, no one would think of adopting it.

Nearly the whole body of European financiers, and English as well, believe the restriction of its note issue to be the one defect in the Bank of England system, with reference to the pretended greater security given to the business and commerce of Great Britain in preventing or allaying panics by its method of issuing currency, over and above the method pursued by the Bank of France, the Bank of Germany, or in New England under the Suffolk system, from 1840 to 1864, which latter I believe to have excelled all others, excepting the Scotch. No one believes in it, and yet it is proposed to foist the semblance of this system, but in a far more objectionable form on our present chaotic system, or rather want of system. The claim that the internal arrangements of the Bank of England required by law, as to keeping its accounts and its gold (for that is the sum and substance of the whole controversy), gives any greater security to the creditors of the bank and to the business interests of Great Britain, or makes its currency any more secure than are the currency notes of the institutions named, is wholly

unfounded. The highest, and, in fact, the only substantial approval in finance is imitation, and the Bank of England system has been unanimously condemned in not being adopted by a single bank in the world during the fifty-three years of its existence. The Bank of England is, first of all, the commercial, and still more the gold, clearing house of the world, rather than a bank proper. That it is managed with consummate ability, by "giants in the land," is not disputed, but its success is believed by nearly the whole body of the practical financiers in Europe to be not because of, but in spite of, its system of issuing currency. Its position is unique.

It is proposed in the Hill-Fowler bill to go further even than the Bank of England in making our legal-tender notes purely gold certificates.

The Bank of England notes are not gold certificates in form or substance, as distinguished from the notes of the Bank of Germany or the Bank of France.

The issue department of the Bank of England held gold to the amount of only 66 per cent of the currency it had outstanding on December 9, 1896, as shown by the Bankers' Magazine, London, England. It is therein reported that in 1847 the bank held gold to 48.84 per cent of its notes in circulation, 48.75 per cent in 1856. In 1857 it held gold to 41.23 per cent. In 1860 it held 65.21 per cent, on October 3, 1889, 73.37 per cent, etc., etc. To its total gold liabilities a comparatively small per cent, while not only English merchants, but the commerce of the world, looks to the \$150,000,000, more or less, gold in the Bank of England for gold exchange.

The Bank of England law gives no preference to its obligation in the form of a Bank of England note over any other form of its total obligations of \$450,000,000 in the requirement that it shall pay gold on every demand.

The provision of law requiring the bank to maintain two departments, one of issue and another of discount, is purely a matter of book-keeping, in that the same men are one and the same corporate person, managing its issue department and also its discount department, and invariably with the two departments as one corporate person does every customer deal. That is to say, the law recognizes only one corporate person in the Bank of England. This is incontestably true. The law simply defines how this person shall act. How, then, can it be said that each department has an autonomy of its own, or increases its ability to maintain gold payments, or that its security is increased or diminished by legal restrictions on its freedom of action in an emergency? In fact, in every crucial emergency this restriction has been suspended.

It is impossible by a law, in provisions applying wholly to the manner in which a corporate person shall manage its internal affairs, and making parties of the second part in no way responsible for its doings, to change or modify or give preference in securing gold to one obligation over any other obligation assumed by such corporation, when it is prescribed in the law that every obligation (of the Bank of England) is identical in this, viz, that they are each and all payable in gold on demand.

The testimony before the Committee on Banking and Currency was that the Government is responsible for maintaining parity in all forms of our money, keeping each at a parity with the other, directly or indi-

rectly, each dollar of it on a par with the other in demanding gold. The least reflection will convince anyone that, in the nature of the case, this must be true.

Finally, the Bank of England was prohibited from giving any preference to one of its creditors who held one of its obligations in the form of a Bank of England note over a creditor who had one of its checks, drafts, bills of exchange, or only a deposit in the bank subject to check. That we may understand the situation, I give its exhibit for December 9, 1896, in dollars, and in the form used by national banks:

ASSETS.

Government debt.....	\$53,604,984
Government securities	66,928,823
Other securities	157,353,785
Loans and discounts	117,805,579
Gold coin and bullion	161,945,829
Silver and gold coin	11,729,881
Total	569,368,881

LIABILITIES.

Proprietors' capital	70,822,174
Surplus and undivided profit	15,350,863
Public deposits	32,113,216
Other deposits	206,656,615
Seven days' and other bills	692,984
Currency notes	243,703,029
Total	569,368,881
Liabilities to the Government.....	118,286,253
Liabilities to individuals	451,082,628

As not a dollar of this \$570,000,000 has the slightest preference over any other dollar, from the Bank of England notes to deposits of individuals, in being payable in gold or having the right to demand gold, how can anyone conceive that a rigid bank regulation or inexorable statute law in restriction of the freedom of the bank as to the mechanism of keeping its gold or issuing its currency or paying out its currency as unforeseen emergencies arise can be any other than a promoter and intensifier of panics rather than a source of stability and confidence in the ever-expanding and contracting demand for currency and the complex and ever-varying and unknowable banking gold conditions?

Shall this country, in the Hill-Fowler bill or at the request of any man or body of men, because of their eminent respectability and ardent patriotism, make our treasury condition ten-fold worse than it now is by adopting the currency system of the Bank of England, when, as I have said, it has received the most severe and unanimous condemnation in the practice of all the other banks of the whole world for the fifty-three years of its existence? The greatest, in fact the only, competent or tangible evidence of approval of any financial device is its adoption by those who approve it. Every bank in every country has in practice condemned the Bank of England machinery for keeping and paying out its gold and issuing its currency by refusing to adopt its system.

Furthermore, the whole body of the world's practical financiers, with few exceptions, condemn it in words, as they all do in practice. It is not abandoned by the Bank of England from the fact that the warp and woof, the success of moderate banking, is based on "confidence," and when confidence exists, rightly or wrongly, bankers are not warranted in disturbing the public mind by a change, however desirable in itself the change may be. The only justification for action here, bad as is our system, is that the people having come to a knowledge of the perils of our financial position, confidence is destroyed and immediate reform is demanded on every hand. I could fill a hundred pages with adverse criticism of the Bank of England system from the leading financial writers of the world, but as I am appealing to the great jury that must finally decide this question, viz, the plain people, I use my limited space in quoting the final verdict of those most competent to form right opinions, from authorities the people can consult, which are crystallized in encyclopedias.

The Encyclopedia Britannica is content to give definitions and state facts as to subjects in other cases, but in that of the Bank of England it confesses judgment through page after page of special pleadings that command the respect of but few financiers, and disputes its own facts.

It confesses that:

"It must be admitted that the variations in the rate of discount charged by the bank have been much more numerous and violent since 1844 than they were before, and on these occasions it has been judged necessary to authorize the suspension of the act so far as to allow the bank directors the power to strengthen the banking department by recourse to the reserves in the issue department. In each case the suspension of the act arrested and allayed the panic prevailing up to the moment of suspension, and in 1866 it was not, in fact, found necessary to exercise the power to borrow from the issue department, which had been conceded to the directors."

What is meant by the "suspension of the act" is the deliberate violation of the plain letter and spirit of the law of the land "by the action of the executive government (of the bank) acting on the faith of a subsequent indemnity by Parliament."

And this is the system of banking laws recommended to this country, badly as it serves the greatest bank in the world. On our Public Treasury, without a shred of banking business or banking powers to mitigate and hide its defects, this travesty of the true banking and true and safe currency principle and safe bank and currency practice is to be saddled with this excrescence.

Again it says:

"Again, it may be freely admitted that it is not improbable that changes (crises) have from time to time happened that might not have occurred supposing the separation of the banking and issue departments had not been established. * * * The repeated suspensions of the act of 1844 in time of trial do, prima facie, present a much stronger argument for the repeal of the statute. Legislation which breaks down upon critical (crucial) occasions discredits the legislature that decreed it. Sir Robert Peel, in common with the earlier advocates of the policy of the act (separate departments), believed that it would prevent the recurrence of commercial crises, etc."

The statement by it of the fundamental principles governing the issue of currency laid down by the article and accepted by all writers

on finance confounds it in every word of its defense of the abnormal provisions of the Bank of England act of 1844 as to its issuing currency, viz:

"No inference can be safely drawn from the number (amount) of notes or coins, or both, afloat in the country as to whether its currency be or be not in excess. That is to be learned by the state of the exchange, as by the influx and efflux of bullion. If the imports of bullion exceed the exports, it seems that the currency is in some degree deficient, while if the exports exceed the imports it shows that the currency is in excess, and that no additions can be made to it without further depressing the exchange and increasing the drain of bullion. When the imports and exports of bullion are about equal, then, of course, the currency is at about its par level. These are the only criteria by which anything can ever be correctly inferred in regard to the deficiency or excess of currency. Its absolute amount affords hardly even a basis for conjecture. Excepting in periods of internal commotion, or when we are disturbed by alarms of invasion, the state of the exchange is the only, as it is the infallible, test 'of the sufficiency or insufficiency of the currency.'"

If there is any one thing more than another that will establish in the mind of the banker a fear that begets a crisis and panic or that will intensify them, it is that he can not change the form of his obligations and that his fellow-bankers will not come to his assistance in case of unusual demands being made upon him in "rediscounting [his] bills that had been already discounted by him." See how the Bank of England is made to appear, whatever the facts may be, to play the Ishmaelite and intensify, if it is not a potent agent, in inaugurating crises, in a further significant quotation, viz:

"Strict limitation in the number and class of customers with whom the bank would do business and a refusal to rediscount bills that had already been discounted by money lenders, make it possible to keep the bank rate below the rates of the open market without exposing the resources of the bank to an exhaustive demand." [And a government treasury has none of these devices or resources to assist it.]

Financiers further declare that the Sir Robert Peel scheme for making hard and fast lines for banks in their issue of currency was adopted because of his utter failure to appreciate the fact that the only legitimate and certain repressive device was to compel banks to certainly and instantly redeem their currency in specie in some commercial center, as well as at their own counters. Where proper redemption is required, overissue of currency has never, anywhere, in the history of banking, had any perceptible influence in inciting or intensifying a financial crisis. Note the history of the Suffolk system, as also that of Virginia and Louisiana from 1840 to 1864. A very wide latitude in issuing currency was allowed banks, even up to their actual paid-up capital, and in some States to double their capital.

It is not the holders of currency that begin an unreasoning demand for specie from banks or from the United States Treasury. There is not an instance of panic or even monetary stringency being inaugurated by holders of currency, or a general demand for specie by holders of currency, until long after depositors were in panic and had done the mischief which reacted on the Treasury. It can not be shown that any normal bank has ever failed from the excessive issue of currency. The insolvency of banks is caused by the excessive or unwise extension of

loans, of which the issue of currency may bear an insignificant part, and our National Treasury to-day is the guarantor of every bank in the country, national or State, in its maintaining the gold standard. No contradiction of this statement is found in the fact that dishonest persons sometimes established or got possession of a State bank, stole its funds, or debauched its currency, as such persons have wrecked national banks.

On the other hand, the free issue of currency, and in amounts that would not have been justified in normal conditions, has prevented or allayed many a threatened or incipient panic, especially by the Bank of England, and in violation of law. Had our banks the right, and had they freely exercised it, in 1893, to issue currency up to their paid-up capital, bad as were other financial conditions, it would have prevented or safely and immediately relieved that panic. It was a currency famine caused by hoarding currency quite as much as of gold hoarding.

Banking is a contest from start to finish, in a pressure for credits by the borrower, supported by a desire for profits on the loans by the banker, on the one side, and a demand, on the other side, of payment and larger security by the banker. It finds its duplicate in the bulls and bears of the stock exchange. Bankers must have their every available asset at command to meet any and every demand, and to use at their absolute discretion at all times, as well as in crises, in order to prevent or to curb crises.

The Bank of England act of 1844 was passed to take away this absolutely necessary discretionary power. I quote from the American Encyclopedia:

"An examination of the operations of the bank (of England) demonstrates the fact that Sir Robert Peel entirely misapprehended the causes of the fluctuations complained of, and that he applied the restrictions to that particular branch which varied but little (amount of currency issued). * * * The real cause of trouble was to be found in the loans (not in its currency). * * * That this act (taking from the management their discretion in issuing currency) has had no effect in mitigating this crying evil will be clearly seen in the fact that these fluctuations have never been more violent than since its passage. * * * In its efforts (on May 11, 1866) to save itself and comply with the absurd provisions of the bank act, it (the Bank of England) spread ruin and desolation around it, and years were necessary to enable the country (Great Britain) to recover from the effects of the panic thus (itself) created."

Those who think the currency restrictions upon the Bank of England meet the approval of the whole body of England's most experienced financiers are greatly mistaken. Scarcely one of them would not have a sense of great relief should he wake up any fine morning and find them swept away.

I am in no sense deprecating the beauty, strength, or wisdom of the "Old Lady of Threadneedle Street." I am only protesting that it does not lie in what all her true friends recognize as an ugly wart upon her nose, as Samson's did in his hair. The Hill-Fowler bill would transfer that wart to the nose of Uncle Sam and develop it into a malignant cancer, poisoning his life blood.

Under the Gladstone administration, "Mr. Low, as chancellor of the exchequer, introduced into the House of Commons in 1873 a bill providing * * * that the act providing two departments might be

suspended by order of the Government upon certain conditions * * * when the governor and deputy governor of the bank certified that panic had caused a portion of the bank notes nominally in circulation to be locked up and withdrawn from (actual) circulation. The authority of Mr. Gladstone's administration had declined when this bill was introduced * * * and, assailed from many quarters, was withdrawn without the opinion of Parliament being taken on its merits. It was contended that Mr. Low's attempt * * * to define beforehand the conditions of a panic was a logical contradiction. A panic has no laws; it has no fixed shape. It is precipitated we know not how, and we are in the midst of it before we are aware."

This amendment proposed by Mr. Low proclaims the fact "that in a stringency the people lock up the currency of the Bank of England, and that the law locks up its gold, and in its helplessness a crisis is thus actually precipitated and continued by the very provision of law avowedly enacted with the sole purpose of preventing or allaying crises such as are now created by it."

I repeat, the days of a run on a bank for specie, by presenting its currency for redemption, even in crises, are past, never to return, even under as liberal an issue of currency as was allowed by the old New England Suffolk system and that of Virginia and Louisiana (look at our experience in the currency famine and gold craze of 1893), always provided that every bank is compelled to redeem its currency in some "reserve city," as well as at its own counter, and also that the Government requires a very small safety-fund tax, to recoup itself for any loss from guaranteeing every dollar of currency issued by any bank, and keeps the same supervision and control as now of all banks issuing currency.

Of course, I shall be told of the suspension of specie payments by New England banks in 1857; but the fact is that they only nominally suspended specie payments at that time. Specie did not go to a premium, and all that was legitimately demanded of them by their customers in the way of their legitimate business was paid to them "on demand," and the banks soon recalled their nominal suspension. They continued to supply their customers with specie through that crisis, precisely as France and Germany now furnish gold to their customers. They kept their currency at par with specie precisely as the Bank of France and the Bank of Germany now sustain the silver and currency of those countries at par with gold. The State banks of New England, Virginia, Louisiana, etc., made a better showing from 1840 through 1857 and up to 1864 than the Bank of England did in the same period, during which period the restriction on issuing currency by the Bank of England was suspended several times.

Political and party rivalry, and that only, prevented the passage of the Low amendment by the British Parliament, and the safe removal of the hideous wart from the nose of the comely Old Lady of Thread-needle street, that looks so lovely to some, and that without leaving a scar.

Again, normally low rates of interest can not prevail where the true bank-note currency is not issued. This country has not seen a normally issued bank note since the State bank notes were taxed out of existence. It can be proven that the purchasing value of the wages or income of every man in this country is reduced by nearly one per centum per annum by our faulty banking, currency, and Treasury system.

I will quote only one more opinion on the issue of currency system of the Bank of England, but it is the final judgment of one of the most careful and experienced investigators and financial experts and writers in Europe. He expresses practically their unanimous opinion. Pierre des Essarts, chief of the bureau of economics and statistics of the Bank of France, author of the *History of Banking in All the Leading Nations*, etc., in an article published in the *Journal of Commerce and Commercial Bulletin* of New York, March 10, 1897 (which no one can afford not to read), says:

"The true bank note is unknown in the United States. The bank note should be simply a means of transforming a debt into cash. As between individuals the note is cash; but as between the issuing bank and the holder it is a credit instrument, because the note holder has loaned to the bank the coin he has a right to demand. * * * When a bank of issue is properly managed, the circulation takes care of itself. * * * These notes are sufficiently guaranteed if the property and securities against which they are issued (the assets of the bank) are valid and of sufficient value. * * * England has adopted an automatic device for issuing currency notes which works well in ordinary times, but the insufficiency of which has often been demonstrated in critical times. We may note in addition that the bank's regulations for issuing currency notes, which are practically useless in normal situations, become futile or even dangerous when the bank is called upon for unusual exertions."

No man can suggest any substantial advantage in the division of the issue department from the discount department of the Bank of England over and above the law and practice of the Bank of Germany or the Bank of France or the New England Suffolk system as it existed before 1864, while its disadvantages are clearly stated by authorities beyond question. In fact, as I have said, in the Bank of England and nowhere else, excepting partially under our national bank act, is any approach to the English system in operation. It is patent to all that very nearly the universal opinion of European financiers is that the success of the Bank of England is in spite of—not because of—its thoroughly abnormal internal machinery for issuing currency and handling gold.

My excuse for this long paper is the strong effort that is being made not only to engraft upon our national banking system the currency system of the Bank of England, but to divert the United States Treasury, as Washington, Hamilton, and Gallatin made it, still further from its legitimate functions, and make it a huge bank, modelled upon what European financiers believe to be one of the absurdities of the English bank act of 1844.

Furthermore, the Bank of England is confessedly a monopoly, and its monopoly of currency the most excessive of its oppressive features. Our people demand all the freedom, the convenience, and the economy of the true bank-note currency of the old State banks, plus the security of national supervision and control of our national law, and also plus a small tax on currency to recoup the United States Treasury for its guarantee of every dollar of currency issued by the Government to the banks and put in circulation by them.

They have repeatedly refused to give up the United States legal-tender notes. They probably would consent that they be reduced to \$200,000,000 by paying \$146,000,000 of them with the gold now in the Treasury. They demand that the old Suffolk system shall be national-

ized, that the only power that can keep the \$200,000,000 legal-tender notes and all other currency and coin put in circulation at par with gold, absolutely free of expense, viz, the bank, shall do so by assuming the current redemption of the greenbacks pro rata to their capital.

No impartial investigator who will carefully examine the immense body of facts furnished by the Comptroller of the Currency, and those furnished by the chairman and published in the reports at the hearings before the committee, can come to any other conclusion than that no substantial relief can come to the United States Treasury by the enactment of any bill that is not drawn on the lines of the Walker bill (H. R. 10333).

Respectfully submitted.

J. H. WALKER, *Chairman.*

APPENDIX.

Not a single person has appeared before our committee who did not condemn the principle on which the Hill-Fowler bill (H. R. 10239) is drawn, and who did not approve the principle upon which the Walker bill (H. R. 10333) is drawn. This is so patent, when dis severed from commendation or condemnation of any particular bill, and therefore given without prejudice, that I append the following extracts from the testimony given before our committee and published in the "Hearings:—"

NO GOLD PAID INTO THE TREASURY.

The CHAIRMAN. What percentage of the present income of the Treasury is paid in gold?

Secretary GAGE. Perhaps one-half of one per cent; something like that. It is so small that I have not looked into the matter.

The CHAIRMAN. It cuts no figure?

Secretary GAGE. No; it cuts no figure whatever.

CHANGES IN THE LAW SHOULD BE FEW AS POSSIBLE.

Mr. WALKER. Should not the changes proposed, while being thorough, make banking as free and allow currency notes to be issued to the people as freely and at the lowest possible cost that is consistent with its sure current redemption in specie and the sure and immediate payment of these currency notes in case of insolvency?

Mr. FAIRCHILD. That is my idea.

Mr. WALKER. The changes should allow those sections of the country where interest is highest to make the same relative profit on the currency issued in those sections as is made in the lower-interest localities, should it not?

Mr. FAIRCHILD. I should think so, most decidedly.

UNWISE TO ATTEMPT BY MANDATE OF LAW TO UNDERTAKE TO COMPEL BANKS TO REDEEM IN GOLD.

Mr. STALLINGS. Does your bill provide that the national banks shall redeem their notes in gold?

Secretary GAGE. It does not.

Mr. STALLINGS. Do you think it ought to?

Secretary GAGE. After consideration I think it is indifferent whether it does or not. The reason I did not put it in was that I do not believe the Government, as an issuer of notes, ought to recognize any money on earth as better than its obligations, or discriminate against

itself or its obligations. If they say that greenbacks or any of the Government's obligations are not good enough for something, but gold is, they thereby cast a reflection upon their own notes. Besides, I think it would be purely immaterial. If you make the banks redeem in gold, then the banks must get the gold to redeem with. If they have the obligations of the Government, you may make it necessary for them to present the notes to the Government with which to get the gold to redeem their notes, * * * and therefore it does seem to me expedient from all points of view, practically and theoretically, not to put that in the law. The banks, if they find difficulty in maintaining other forms of legal money that will discharge debts, will have to carry gold. They have now in their possession in the country some \$240,000,000 of that kind of metal, which is a pretty fair supply to start with.

Mr. HILL. * * * Do you believe that it would be a wise course to pursue to make all bank redemption specifically in gold coin, eliminating the other legal tender of the country—silver and the lawful money, silver certificates?

Mr. FOWLER. Limit it to the notes, of course, and not the deposits.

Mr. FAIRCHILD. My idea in all this was that the Government should not in its laws discriminate against any of the money which it had in circulation, because the tendency of so doing was to drive it into the Treasury.

Mr. HILL. But that redemption should be in lawful money?

Mr. FAIRCHILD. That was my idea.

GOLD REDEMPTION BY GOVERNMENT OF ALL PAPER MONEY— TREASURY REDEMPTION IN GOLD.

Mr. BROSIUS. Now, how can we redeem the pledge we are under by existing law to maintain the parity of our money unless we afford some means for the people who hold paper to present those obligations for redemption in gold?

Secretary GAGE. We can not. I understand we have such a process now.

Mr. BROSIUS. If we take \$200,000,000 of the \$346,000,000 out of circulation and hold it in the Treasury, that can not be presented?

Secretary GAGE. No, sir.

Mr. BROSIUS. What kind of demand obligations will the people have to present to the Treasury to get their gold?

Secretary GAGE. They will have \$146,000,000 of greenbacks. They will have \$100,000,000 or more of Treasury notes, and they will have \$450,000,000 of national-bank notes. They could not present them to the Treasury, but they can present them to those who promise to pay.

PARITY TO BE MAINTAINED.

Mr. BROSIUS. I know that; but the Government has undertaken to maintain the parity of all our money.

Secretary GAGE. Yes, sir. * * * The ability of the Government of the United States to maintain the parity between the different forms of its money outstanding depends upon its ability to control gold. So far as it can reduce the obligations that are outstanding, so far it increases its strength to take care of those that are out.

Mr. BROSIUS. Then the duty that we have undertaken, to maintain

the parity of gold and silver and all our money, requires that the people are afforded some means of getting gold with the other money?

Secretary GAGE. The means are open, as I look at it.

Mr. BROSIUS. Are there any means left after the demand obligations of the Government are taken out of circulation?

Secretary GAGE. Yes, sir; there would be if they were all out.

Mr. BROSIUS. What way?

Secretary GAGE. The way would be for people to present their obligations to the national banks.

UNDER GAGE BILL THE BANKS WOULD REDEEM THEIR NOTES IN SILVER.

Mr. BROSIUS. The Gage bill does not make it their duty.

Secretary GAGE. To do what?

Mr. BROSIUS. To redeem in gold. * * * They would comply with the law if they redeemed in silver.

Secretary GAGE. They would. Now you have struck the point. You think that when the Government demand obligations are out it will have no function in maintaining a parity. It will have about all the function it wants to perform in keeping \$560,000,000 in silver money of the United States, and keeping that on a parity.

Mr. BROSIUS. How?

GOVERNMENT WOULD EXCHANGE GOLD FOR SILVER AND FOR BANK CURRENCY.

Secretary GAGE. By exchanging gold for it.

Mr. BROSIUS. A gold reserve would have to be provided for that purpose?

Secretary GAGE. I think so.

Mr. BROSIUS. Yes. Then, all the paper obligations being issued by the banks, the redemption of that would be left entirely to the banks?

Secretary GAGE. I think so.

Mr. BROSIUS. And then, if the banks refused to redeem in gold, or were unable to redeem in gold, the whole system would collapse, and we would go to a silver basis?

Secretary GAGE. I can not quite follow you. I thought you asserted a minute ago—

The CHAIRMAN. I think I can put a question right there that will perhaps clear this. The object of retiring this \$200,000,000 is to put it out of the power of anyone to use the \$200,000,000 to ask for gold redemption.

Secretary GAGE. That is correct.

The CHAIRMAN. It leaves out in circulation all the silver certificates and the Treasury notes. Now, what Mr. Brosius wants to get at is, how the Government gets gold if it proposes to redeem all those Treasury notes and certificates in gold.

Secretary GAGE. Well, that is another question. It makes little difference how they do it. I provide how they can do it a great deal easier than now.

The CHAIRMAN. How?

Secretary GAGE. There would be \$200,000,000 less to take care of.

The CHAIRMAN. Out of the \$700,000,000?

Secretary GAGE. Out of the \$930,000,000.

Mr. PRINCE. How many million dollars will the bank circulation reach at the same time?

Secretary GAGE. I think it will be something like \$500,000,000.

Mr. PRINCE. That, added to the \$730,000,000, makes \$1,230,000,000. So, if the banks have to redeem the gold, there are demand notes and in circulation, either against the Government or the banks, for which gold can be demanded, to the extent of \$1,230,000,000?

Secretary GAGE. Yes, sir.

GOVERNMENT TO REDEEM \$1,230,000,000 PAPER MONEY.

Mr. PRINCE. Now, you say that if the banks can not meet this and it is thrown back on the Government the Government will take possession of the banks, their assets, and property, and, to do its duty, it would redeem this \$1,230,000,000 in gold?

Secretary GAGE. Yes, sir; until they wound up business.

GAGE BILL DRAINS THE TREASURY OF GOLD.

Mr. HILL. How have you released the Government of any liability of redemption in that exchange of the \$200,000,000? It seems to me you have made it still more easy to drain the Treasury of gold. For instance, if a company of men wish to get \$200,000,000 of gold from the Government, instead of getting gold for greenbacks, why wouldn't they take bank notes and redeem them in lawful money, and then call for the gold with their lawful money?

Secretary GAGE. In the first place, they would have to get the lawful money. They have to find that lawful money. As fast as these notes are presented for redemption, the *difficulty of finding the lawful money will increase*. They must provide the lawful money. If they do find it, there is no way for the Government to escape payment of its lawful obligations.

Mr. HILL. They will get notes or silver, will they not?

Secretary GAGE. From whom?

Mr. HILL. From the banks; or else the bank fails.

Secretary GAGE. Yes, sir; and if the bank can not provide legal-tender notes, Treasury notes, or silver, it will have to provide gold. It will *provide that which is easiest*, of course, as anybody else will do. But I contemplate that under my bill I will diminish the lawful money \$200,000,000. I will make it relatively scarcer than it is now.

Mr. Cox. When the bank note follows its process along until it reaches its redemption in the Treasury of the United States, does your bill propose to redeem that bank note in gold or other money at the option of the holder of that note?

Secretary GAGE. In the case you suppose, the note is redeemed at the [bank] counter.

Mr. Cox. No; they refused to redeem it.

Secretary GAGE. You supposed he redeemed it in a greenback, and he took the greenback and went to the Government.

Mr. Cox. He takes the note, or a bundle of notes, to the bank, and the bank refuses to redeem them in gold. He still holds those notes. Now, under your bill, is not the process incorporated into this, that a man can have those bank bills redeemed by the Government?

Secretary GAGE. Yes; he could send to the Government and get those notes redeemed.

Mr. Cox. I so understood it all the way through. Now, he could take the bank notes, the bank refusing to redeem them in gold, to the Government—take the same notes to the Government—and the Government would be bound to redeem them in gold if he demanded it?

Secretary GAGE. It would be bound to redeem them in greenbacks or gold; yes. He could take the greenbacks and turn around and draw the gold, so it would be practically a redemption in gold.

Mr. Cox. In other words, he could take the notes of the bank and go to the Treasury of the United States and the Government, under this bill, would be obliged to redeem those notes in gold?

Secretary GAGE. Substantially, yes.

But, mind you, the Government is not redeeming those notes on its own account. The Government is redeeming them on account of the bank.

Mr. Cox. I understand that.

Secretary GAGE. Then the bank would have to account to the Government and reimburse it.

GOVERNMENT HAS NO CLAIM FOR GOLD ON THE BANKS.

Mr. Cox. Certainly, and I take it that the Government would demand reimbursement in the same kind of money the Government had redeemed the notes in?

Secretary GAGE. No, sir. If the bank had satisfied its legal liability to the Government and recouped the Government with any form of money that the Government recognized—greenbacks, Treasury notes, gold, or silver—that, I think, would be sufficient.

Mr. Cox. Then the Government, in the first step of redemption, redeemed the kind of notes I have spoken of in gold, and its obligation is such that you think it necessary, to maintain the parity, to redeem them in gold if the holder desires gold; but when the bank, which has got from the Government the benefit of banking, comes to pay the Government the bank can pay the Government off in any kind of money?

Secretary GAGE. Whose fault is that? That is the situation the Government is in, and going deeper does not get it out.

Mr. JOHNSON. What law is there to require the Government of the United States to redeem national-bank notes in gold?

Secretary GAGE. There is no law; but we have to redeem them in lawful money. We have to redeem them in something, and if it were so that a holder of these notes could go to another window and secure gold, it would be substantially as Mr. Cox says.

GOVERNMENT GETS THE POOREST MONEY.

Mr. FOWLER. Under your plan, as I understand it, the banks of the country could deposit your reserve fund in either greenbacks, Treasury notes, or silver certificates, could they not?

Secretary GAGE. Yes, sir.

Mr. FOWLER. Would there not be, under the pressure now felt in this country, a tendency on their part to get rid of the poorest of those three kinds of money and instinctively deposit silver certificates. Would not that be the tendency?

Secretary GAGE. That would be the tendency unless their faith in those notes is strengthened.

Mr. FOWLER. Let us assume, however, in going through this, that the banks would tend to pay into your reserve any legal-tender money, say in silver certificates. The result, then, is that there would be outstanding, mathematically, \$346,000,000 of greenbacks, \$115,000,000 of Treasury notes, approximately; and you have left \$136,000,000 of silver certificates in the place of the \$200,000,000 of silver certificates which have been deposited by the banks and are not a legal tender and can not draw gold; and in place of that you would have \$200,000,000 of national-bank notes, would you not?

Secretary GAGE. Outstanding? On your hypothesis; yes, sir.

Mr. FOWLER. I am not dealing with hypothetical questions, but a sad experience which we have had in the last three years. Let us go a step further. If it is true that you have added to the abstractors \$200,000,000 of that money, which to-day makes drafts upon the Government for gold, what defense has the Government against that draft? You have stated that whenever the Government attempts to recoup for that gold which it has paid out, the bank to which it sends its notes can then pay the Government in lawful money?

Secretary GAGE. If it has it.

Mr. FOWLER. Would it not be the most natural thing in the world for the banker—and I am asking you as a banker—to send in silver, Treasury notes, or certificates rather than to send in gold?

Secretary GAGE. It would depend, as I have said, upon two considerations—what relative supply he had of each and what respect he had for them; that is, his confidence in them. If he thought the gold was safer and better for him to have he would send the other if he had it

PANIC OF 1893.

Mr. FOWLER. That is the point exactly. Now, is it not a fact that we are drafting a bill, not to cover normal conditions, but to cover crises, and is it not true that whenever a crisis is on, such a crisis as we had in 1893, practically no money at all passes between people; and if it were thought that there is a chance of the Government not being able to redeem its obligations, would not everybody press the Treasury for gold, and if it is true, is it not true also that every bank would reserve its gold and pay out its paper money?

Secretary GAGE. In such condition of distrust of the standard, yes, sir. * * * I do not know how to avoid the risk of the Government's responsibility except to cancel its debts and not owe anything. Then there would not be any trouble of the kind you suggest.

The CHAIRMAN. I wish to ask you whether it is possible to use paper money, and keep it at all times equal in purchasing power to the specie it represents, without having the coin sure of easy possession for the asking in exchanging it when the desire for it arises?

Secretary GAGE. I think not.

STOPPING THE MOVEMENT OF THE "ENDLESS CHAIN" PRODUCES PANIC.

The CHAIRMAN. Then any device that hinders or in any way delays or incites in the mind an apprehension that, upon desiring to exchange the paper money for the specie it represents, the specie may be refused or the obtaining of it delayed, tends to excite a desire to exchange the paper money for it and to incite a panic?

Secretary GAGE. It would incite distrust—that is, panic—and lead to a pressure for specie.

DEPRECIATING THE PRICE OF BONDS THE ONLY WAY TO PROTECT GOLD.

The CHAIRMAN. I prefer to use the word “specie,” you understand, because I do not want to raise the question of coinage. Is it not a fact that there are scores and hundreds, and, in the case of mortgages, stocks, bonds, and all things that easily and surely transfer wealth, thousands and millions of funds, that are quickly available, which are awaiting the depreciation of prices of such securities in order to purchase them at less than their normal price?

Secretary GAGE. I could not speak very authoritatively on that point.

The CHAIRMAN. I will ask Mr. Fairchild if it is not a fact that there are millions upon millions of funds, quick assets in banks, that are awaiting the depreciation of securities to purchase them?

Mr. FAIRCHILD. Yes, sir; there are always plenty of persons willing to buy at a depreciated price.

The CHAIRMAN. There is an immense number waiting to do so?

Mr. FAIRCHILD. I should think so.

RAISING THE RATE OF DISCOUNT WORKS THE DESTRUCTION OF THE DESIRE FOR GOLD.

The CHAIRMAN. The next question is, that the only principle upon which a safe and free issue of paper money redeemable in specie can be had is a principle that will work the destruction of a desire for specie, when it arises in the minds of the holders of the paper money that represents the specie, by then making other things more desirable to them than the specie. Is not that the principle on which the Bank of England raises the rate of discount and protects its gold?

Secretary GAGE. I should say it is, by satisfying the desire rather than by destroying it. That is the only amendment I should make to your statement. It appears in the form of statement.

The CHAIRMAN. How is it satisfied?

Secretary GAGE. Either with the gold itself or other things they prefer.

The CHAIRMAN. Is it not a fact that they will insist upon having the gold unless the action of the bank is such as to depreciate what we call solid securities to a point where they will prefer to buy them—I do not mean individually, but as a class—rather than take the gold? * * * Is it not a fact that the raising of the rate of interest, when conditions are such that the rate of interest is forced up, forces down the price of solid securities, and that solid securities are shipped from one country to another and are accepted by persons rather than specie?

Mr. FAIRCHILD. * * * I think we are somewhat misled by the raising of the rate of interest by the Bank of England. It does that specifically to protect the gold it has.

The CHAIRMAN. My point is, how does it protect the gold by raising the rate of interest?

Mr. FAIRCHILD. Just as it diminishes the borrowing demand. The Bank of England raises the rate of interest because the borrowing increases, and the result of that is to diminish the call upon the funds of the Bank of England, and all of the funds of the Bank of England

being gold, the result is to diminish the call upon the gold in the Bank of England. Now, in this country the same thing takes place when a man borrows a million dollars to pay a debt abroad. It makes a diminution of the loanable funds, and that of itself works an increase in the rate of interest, and when that rate of interest becomes large enough the seller of exchange, instead of meeting his remittances by the actual shipment of gold, finds a cheaper way to meet his bill of exchange.

Secretary GAGE. I agree with what Mr. Fairchild has said, but I do not think either of us yet has specifically answered your question. I am willing, for my part, to say the raising of the rate of interest tends to depress the price of securities and tends to depress the price of commodities.

BANKS RAISE THE RATE OF INTEREST BECAUSE COMPELLED TO DO SO.

The CHAIRMAN. Then the raising of the rate of interest by the Bank of England, or the banks of New York, or of Chicago, taking large cities first, is compelled by the financial situation. It is not a matter that they control, but they are compelled to do so to protect their deposits and to protect the banks. Is not that so?

Secretary GAGE. That is undoubtedly so.

The CHAIRMAN. That the bank officers do not by their own motion force up the rate of interest, but they defend themselves and defend their institutions from having their funds depleted by raising the rate of interest, and are compelled to do so by the situation?

Secretary GAGE. Yes, sir; and it is operated upon by the law of supply and demand in regard to loanable funds.

LEGAL RATES OF INTEREST.

The CHAIRMAN. Is it not a fact that the rates are never put high enough to prevent the loan of the funds of the banks up to a safe limit, under existing conditions?

Mr. FAIRCHILD. It never will be high so long as there are funds which it is safe for a bank, or a number of banks (if there are a number in a place), to loan.

RAISING THE RATE OF INTEREST PROTECTS GOLD.

The CHAIRMAN. Is it not a fact, Mr. Fairchild, that the desire for taking gold or anything else for shipment is an economic desire—unless it is a miserly desire, which we do not consider in this discussion—and when the rate of interest is raised it depreciates the price of securities so that it checks the economic demand for gold, and, added to that, is it not a fact the raising of the rate of interest by the Bank of England has been effective through all these years in protecting its gold?

Mr. FAIRCHILD. The raising of the rate of interest in England by the Bank of England as an indication and exponent protects the gold in England.

The CHAIRMAN. Is it not a fact that the raising of the rate of interest of the Bank of England in the last ten years has always protected the gold, for the reason men desire wealth for the income upon it, and that as the price of solid securities goes down the income increases or the securities are shipped and accepted in place of gold, and that is what protects the gold in the Bank of England?

Secretary GAGE. I think that is correct.

Mr. BROSIUS. In the Bank of England the rate has been as high as 10 per cent?

Secretary GAGE. Twice in my lifetime.

Mr. BROSIUS. In nearly every State there is a legal rate of interest, and under our banking law no national bank in any State can exceed the legal rate of interest there, so that there must be considered as a maximum rate of discount a great many different rates in the different States of the Union?

Secretary GAGE. You are right, except as to the State of New York, where, I believe, on demand loans on securities there is no limit as to the rate of interest. Am I correct, Mr. Fairchild?

Mr. FAIRCHILD. On securities.

Mr. BROSIUS. Let me understand that.

Secretary GAGE. And in Massachusetts I think there is no legal rate.

The CHAIRMAN. There is a legal rate in Massachusetts and in New York when there is no agreement made, but men have the right to make any agreement they choose.

Secretary GAGE. I so understand.

Mr. JOHNSON. On call loans?

The CHAIRMAN. On any loan.

Mr. FOWLER. I would like to have brought out the fact that on call loans in New York there is an exception to the statutory rate. Now, one question upon the matter of raising the rate: Is it not true, gentlemen, that after the rate rises to a certain point it is simply a question whether a large number of people who might profitably borrow at a lower rate do not borrow at the higher price because it will not be a profit to do so?

Secretary GAGE. It operates that way.

Mr. HILL. Connecticut has no rate unless it is fixed in the contract.

Mr. McCLEARY. Inasmuch as New York is the point of export, I wish to ask whether the rate in New York will not govern after all? And, therefore, are the rates of the several States very material in the case?

Mr. FAIRCHILD. I say that under present conditions I should suppose New York would largely determine the rate, although I might say that Chicago has lately been loaning a good deal of money in Europe. So probably the two go very much together; but New York would very largely influence it.

PEOPLE HAVE NO DESIRE FOR GOLD.

The CHAIRMAN. Wherever men are controlled by economic considerations the desire of men is for wealth which affords them an income, and therefore specie is never desired or even accepted in payment except for the purpose of selling it at a premium or for safety.

Secretary GAGE. That is a fair statement of fact.

The CHAIRMAN. The whole system of using paper money depends upon the instant and sure redemption in coin by the issuer of it?

Secretary GAGE. Upon perfect confidence in the coin redemption.

The CHAIRMAN. Let me ask a second question, which is developed by this. In order that paper money may be safely issued and used, is it not necessary that the issuer, directly or indirectly, be the redeemer of it?

Secretary GAGE. I think so.

THE ENDLESS CHAIN.

The CHAIRMAN. Now we strike something that has been talked of in the country—that a fitting illustration of this process is an endless chain that never ceases for an instant to move potentially or actually, and anything that impairs any link in the chain does it injury.

Secretary GAGE. Your question involves figures of speech which fail always to carry exact ideas; but if I catch your thought—

The CHAIRMAN. Can you suggest a more apt illustration of the necessary inevitable constant flow of currency in and out, coming in contact potentially with the specie it represents, than an endless chain which never ceases for an instant to move potentially or actually, and that anything that impairs any link of the chain does the currency system injury? Can either of you gentlemen suppose a more apt illustration?

Secretary GAGE. I think there are a dozen you might use.

The CHAIRMAN. Will you suggest any one of the dozen?

Secretary GAGE. Say individual buckets. We have adopted the endless chain as a figure of speech, which probably conveys nearly the idea involved, namely, that whoever has demands against the Government or anyone else can take those demands and have them realized in redemption money, in specie. If these obligations are again issued, the new holder can do the same, and so there is a sort of circle established; or it may be, on the one hand, the notes flow out, and in the course of the movement of trade or commerce or distrust the notes come back in a circular movement. That is not a horrible thing; it is natural, reasonable, and proper, and the issuer should never complain. Let him meet his liabilities on demand.

The CHAIRMAN. Is not that what will take place in making a redemption fund?

Secretary GAGE. I think it is.

The CHAIRMAN. Can you suggest anything further, Mr. Fairchild?

Mr. FAIRCHILD. No, sir; I think that is perfectly true.

The CHAIRMAN. Assuming that there will be a recurrence of the distress of 1893, is it possible in such a situation and under such conditions to avoid an endless chain, as long as we have any obligations we redeem in gold?

Secretary GAGE. No, sir. You may sometimes make a strong endless chain and sometimes a feeble one. As long as there is a dollar of obligation of the Government out, that dollar can be presented to the Government. If it is redeemed and paid out it can be presented again, and can be presented as many times as it is paid out. That can be done with only one dollar.

GOLD TAKEN OUT OF THE TREASURY IS LOST FOR USE IN REDEEMING PAPER MONEY.

The CHAIRMAN. Is it not a fact that gold taken out of the Treasury goes into the possession of forces antagonistic to the Treasury, and that gold taken from a bank is immediately returned to some other bank and is kept in the banking system, and the gold is not lessened in quantity? It is lessened in quantity by just that amount taken out of the Treasury which is available for redemption, while in the banks it is not lessened at all?

Mr. FAIRCHILD. Yes.

Mr. JOHNSON. In one sense the endless chain is not an evil. It is

essential in the construction of a currency system that there should be a presentation of the demand notes for redemption, but the evil lies in the fact that the Government does not possess the banking facilities to enable it to meet these demand notes without undue stress.

Mr. FAIRCHILD. Yes; the Government funds are constantly being depleted and never replenished in the ordinary course of its business, while with the bank transactions which call for the issue of its demand obligations contain the means for their payment.

GOVERNMENT CAN NOT SAFELY ISSUE PAPER MONEY.

Now, when the Government issues its demand obligations the transaction which issues them contains no means whatever for their payment.

Mr. JOHNSON. That is the very point I wanted to develop, wherein the work of the Government, as a bank issuing circulating notes, differs from a well-constituted bank.

Mr. FOWLER. The counterpart of any credit note that is issued by a Government or a bank is that it shall be currently redeemed in something of real value as a measure, in order that its soundness may be tested every hour if necessary?

THE ENDLESS CHAIN GOOD AND NOT EVIL.

Secretary GAGE. In order that a condition of health may prevail. Suppose that with a bank the same circular movement of gold goes on that was spoken of a little while ago. The probability is that every bank in every money center redeems every day from 10 to 15 per cent of its liabilities, creating new liabilities to someone else, and the next day liquidating again and again, always new creditors settling and satisfying former creditors. There is a substantial redemption of a bank's liabilities. A bank's notes are not different in their essential character from the bank's deposits. They are the same in their nature and are governed by the same general principles.

SELL BONDS TO MAINTAIN PARITY.

Mr. BROSIUS. Do you think that the parity of all our money under all circumstances could be maintained without the direct interchange of gold for silver, in case the holder of the silver demands it, and does not your commission bill proceed upon the assumption that gold will be given for silver when demanded?

Mr. FAIRCHILD. We provide in our bill that it shall be so given.

Mr. BROSIUS. That is direct interchange, is it not?

Mr. FAIRCHILD. That will be direct interchange; yes, sir.

Mr. BROSIUS. Can the parity of silver and gold be maintained under all circumstances without that direct interchange?

Mr. FAIRCHILD. I should say not so surely, under all circumstances.

Mr. BROSIUS. And therefore you have provided for that in your bill?

Mr. FAIRCHILD. Yes.

Mr. TAYLOR. By the terms of this bill a bank has to pay its depositors in some kind of lawful money. It may pay greenbacks, and when they are gone it may pay them in silver. If it pays them in silver, the United States stands ready to exchange gold for the silver, so the currency of the country rests upon such a basis that men will not only be able to obtain gold when they want it, but they can compel it when they want it.

Mr. COX. Here is a depositor in a bank who has a thousand dollars deposited. He calls upon the bank to make good that deposit. The bank has to make it good in gold or silver. If they make it good in gold, that is the end of it. If the bank pays him in silver, then the man can take the silver and go to the Treasury and get the gold. Is that correct?

Mr. TAYLOR. Yes, sir.

Mr. COX. Now, he leaves the silver there in the place of the gold. The difficulty, in my mind, lies in this. With that kind of process where is the Government to get the gold to redeem that silver or exchange it?

Mr. TAYLOR. Just as it does now. By its revenues, when they are sufficient, and when that is not sufficient by borrowing.

UNITED STATES NOTES DESTROYED BY SECRETARY GAGE IN MAKING THEM GOLD CERTIFICATES.

The CHAIRMAN. Mr. Secretary, you have said that if you had in the issue and redemption department \$200,000,000 of greenbacks to-day—and I suppose you include the \$125,000,000 of gold out of the general Treasury, making \$325,000,000—that the banks would immediately, you think, bring gold to the Treasury for the greenbacks?

Secretary GAGE. I think so.

The CHAIRMAN. Why should they not bring the whole \$200,000,000 they now have to take the greenbacks?

Secretary GAGE. Perhaps they would. I am naturally conservative in my estimates.

The CHAIRMAN. It would be to their interest to do so, would it not?

Secretary GAGE. I think it would.

The CHAIRMAN. Then, assuming that there are \$21,000,000 of greenbacks—I believe that is the estimate, somewhere from \$15,000,000 to \$25,000,000—destroyed, you would have either greenbacks in this issue and redemption fund or gold to make up the \$325,000,000?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Then that makes the greenback purely and absolutely a gold certificate?

Secretary GAGE. It makes it essentially so. I do not think it makes it purely and absolutely so.

EX-SECRETARY FAIRCHILD.

[Mr. Fairchild proposes to destroy legal tenders and have no paper money under \$10, except \$200,000,000 in silver certificates, and then banks can not get these certificates.]

The CHAIRMAN. You propose a destruction of the greenbacks, and to substitute for the greenbacks drawing gold from the Treasury the silver dollar?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Then you do not propose to have any means of reaching the gold in the Treasury after you have destroyed the greenbacks?

EXCHANGE GOLD FOR SILVER.

Mr. FAIRCHILD. We propose that the Government shall keep the silver dollars equal to gold.

The CHAIRMAN. How are you going to do that?

Mr. FAIRCHILD. By giving gold when anybody wants it; and we cal-

culate that an amount of gold kept in the Treasury equal to 5 per cent of the silver dollars in existence will suffice for that purpose.

The CHAIRMAN. If you propose to redeem the silver dollars in gold by the Treasury, you propose to redeem them on demand?

Mr. FAIRCHILD. Yes, sir; on demand.

Mr. HILL. I would like to ask a question now in regard to the questions asked by Mr. Cox. When this bill is in operation and effect, we will have three kinds of currency—gold, silver, or silver certificates, and bank notes—and that is all?

Mr. FAIRCHILD. Yes, sir.

NO PAPER UNDER \$10, EXCEPTING SILVER CERTIFICATES.

Mr. HILL. Now, as I understand the proposition of the commission, they think that the silver certificates under \$10 taking the place of the present national bank notes under \$5 in denomination, and Government currency, will be so firmly held that not even a panic will bring them to the Treasury for redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. So, practically, for redemption money, there will be gold?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. Practically all?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. It will be used for redemption of bank notes, and there will be less silver dollars in circulation, but more silver certificates in circulation as a matter of convenience?

Mr. FAIRCHILD. I could not say.

Mr. HILL. That will be the working of it. Now, I wanted to ask you this question: Suppose a war to come, or some great demand for gold, is there any possible way in which that demand could be brought to bear upon the Treasury?

Mr. FAIRCHILD. No, sir.

BANKS CAN NOT GET SILVER.

Mr. HILL. Being unable to accumulate any reasonable amount of silver certificates or dollars, must not that gold be secured by taking national-bank notes to the banks for gold redemption?

Mr. FAIRCHILD. Yes, sir.

Mr. HILL. And they will regulate that matter by the operation of the rise and fall of interest, as is now done in England.

Mr. FAIRCHILD. Exactly.

The CHAIRMAN. Then you propose in your system to put the power of demanding the gold of the Government, the redeeming of money in gold, beyond the power of the people to reach; that is your point in the bill?

Mr. HILL. It puts it on the banks.

The CHAIRMAN. No, sir; I beg your pardon.

Mr. FAIRCHILD. I do not understand your question. I do not understand the assumption.

TO DEMAND GOLD PUT OUT OF THE POWER OF THE PEOPLE.

The CHAIRMAN. Your answer to the question of Mr. Hill was that the silver would be so absorbed that it was not practicable to get the silver with which to demand gold?

Mr. FAIRCHILD. Certainly.

The CHAIRMAN. That is your first proposition?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, your second proposition is that there is then nothing left in the community that they can get to bring to the Government to secure gold?

Mr. FAIRCHILD. Nothing whatever left.

The CHAIRMAN. Then what institution of individuals is to keep all of our money at par, each with every other?

Mr. FAIRCHILD. The people who issue it.

The CHAIRMAN. But where is the provision in law that anybody shall redeem it in gold?

Mr. FAIRCHILD. They can not redeem it in anything else.

The CHAIRMAN. The gold is to be in the Treasury?

Mr. FAIRCHILD. It would not be in the Treasury.

BANKS NOT REQUIRED TO REDEEM IN GOLD.

The CHAIRMAN. Do you provide by law that the banks shall redeem in gold?

Mr. FAIRCHILD. Not at all. In lawful money.

The CHAIRMAN. And your bill destroys the greenbacks?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. And you claim that the silver dollars will not be stored by the banks so they can get gold, as they now store greenbacks. Why will not the desire and the practice of the banks be to keep the silver dollars to get the gold, precisely as they now keep the greenbacks?

Mr. FAIRCHILD. Because the people must have them for use in their trade and business.

The CHAIRMAN. That is, you propose to make the getting of small money so difficult that the banks can not hoard it—can not keep it to get gold for? * * *

SILVER MUST GO INTO BANKS.

The CHAIRMAN. Is it not a fact that this silver money, when it is paid in the natural course of retail trade, will be paid to the storekeepers for goods that the people buy?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. That is the use that will be made of it?

Mr. FAIRCHILD. Yes, sir; paid for car fares and hotel bills, and all kinds of things.

The CHAIRMAN. Then the answer to my question is that it will be paid by people in the retail purchases of the things they want?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Now, is it not the custom of all merchants, railroad companies, big merchants and small, to deposit that money in the bank?

Mr. FAIRCHILD. It is.

The CHAIRMAN. Then is it not the custom to-day for the banks to accumulate the greenbacks, retaining them and paying out something else?

Mr. FAIRCHILD. Yes, sir.

The CHAIRMAN. Then will it not be the custom of the banks, under your proposed law, in order to have something that is the equivalent of gold for which to secure gold to redeem their bills, to keep the silver certificates to demand gold for?

Mr. FAIRCHILD. It will not.

The CHAIRMAN. Why?

Mr. FAIRCHILD. Because there will not be enough of it.

The CHAIRMAN. Well, I am done.

Mr. HILL. They will retain gold?

Mr. FAIRCHILD. Of course they will.

The CHAIRMAN. Then you fix the thing so that nobody can get any money on which to demand gold except bank notes?

Mr. FAIRCHILD. That is absolutely the case.

Mr. COX. Your theory, then, is, so far as the silver is concerned, that it will be put out in circulation and in the hands of the people, and consequently the banks can't concentrate it so as to draw gold from the Treasury?

Mr. FAIRCHILD. Yes, sir.

REDEMPTION OF UNITED STATES NOTES—UNDER WALKER BILL
BANKS ASSUME UNITED STATES NOTES EQUAL TO $12\frac{1}{2}$ PER CENT
OF THEIR CAPITAL.

Mr. FAIRCHILD. I do not get very clearly in my mind how you relieve the Government of the greenbacks and the greenbacks still remain, making the banks responsible for them. Where, then, do you differentiate them from the other notes, as to reserves and liabilities? How do you arrive at that?

Mr. WALKER. Arrive at their current redemption?

Mr. FAIRCHILD. Yes.

Mr. WALKER. By requiring banks to deposit in lawful money in the Treasury a sum equal to $12\frac{1}{2}$ per cent of their capital and destroy the existing greenbacks to the same amount and issue to the banks a new print of the greenbacks with their own bill printed on the back of them, which they shall sign and execute as though it were only their own note, and it is legal tender to everybody as now—every bank and every individual—except to the bank that takes and issues them. They will be the same as a Bank of England note. They are legal tender everywhere except at the bank whose note is printed on the back of them. That takes \$200,000,000, and the bill further provides that that amount shall never be increased, but that the percentage of $12\frac{1}{2}$ shall be reduced. It does not mention \$200,000,000, but that is what it comes to. When that is once done, $12\frac{1}{2}$ per cent will never be increased, but on the contrary may be reduced.

Mr. FAIRCHILD. If I apprehend your question, it seems to me that that is making a legal tender again of somebody's credit, and while that is economical, or might be economical, and we might like to limit it, I am afraid of the idea. I do not know that I do comprehend the idea fully, but if I do, I am afraid of the idea of making anybody take anybody's promise to pay if he does not want to take it. That would be my objection to your idea, if I understand it.

THE PEOPLE WISH TO KEEP THE GREENBACKS.

Mr. WALKER. The point is that the people insist on retaining the legal-tender notes and refuse to withdraw them.

Mr. FAIRCHILD. Under our bill they remain if the people do not want to have them paid.

Mr. WALKER. Do you mean all the people or the people who are the bankers? This becomes a political question.

Mr. FAIRCHILD. Anybody who holds them may refrain from present-

ing them for payment in gold if they prefer to have them; and my opinion would be, as I have already expressed it, that having once established our principle they would be retained certainly during the ten years, and even after they cease to be a legal tender they would be performing a very large function.

Secretary GAGE. Mr. Walker, I would like to ask you a question or two on that point.

Mr. WALKER. Certainly.

Secretary GAGE. Your proposition is equivalent, as I understand it, to the banks loaning the Government of the United States $12\frac{1}{2}$ per cent of the amount of their circulating notes free of interest, substantially.

NOT A LOAN TO THE GOVERNMENT, BUT A CONVENIENCE TO THE BANKS.

Mr. WALKER. No, not at all; because if it was to a greater amount it might be, but being at an amount so small, only one-quarter of the cash reserve that the law requires them to keep, and being all taken up in the reserve, and the coin reserve being ample without that, they being treated as coin and performing all the work of coin, it is equivalent to allowing banks the liberty of using their own paper in the place of gold. The bill is drawn upon that theory, and allows the bank with 50 per cent of greenbacks to take out 50 per cent of currency, but whenever the bill gets into full operation, it may take 100 per cent the same as a bank with $12\frac{1}{2}$ per cent, upon the theory that this was worth to the banks in practice as much as the gold.

Secretary GAGE. Still, it would remain true that the Government would get the advantage of \$200,000,000 without interest?

Mr. WALKER. Certainly.

COST BANKS NOTHING.

Secretary GAGE. The only difference is that it would be furnished by the banks without any sacrifice or cost?

Mr. WALKER. Yes.

Secretary GAGE. Since it would go into the bank reserves, being available to them in an ultimate case?

Mr. WALKER. It would never be circulated at all. It would take them from circulation as much as your system or Mr. Fairchild's.

Secretary GAGE. They probably would not be circulated, but if they were paid out the bank would have to redeem them and it would be as much a charge on them as if they were their own notes. Therefore, is it worth while to go through the machinery of those notes? Would it not be better for the banks to lend the Government \$200,000,000 for the privilege of issuing their own notes?

PARITY MAINTAINED BY BANKS.

Mr. WALKER. It absolutely relieves the United States Treasury from all responsibility for redemption, for my bill provides that all the banks shall pay a penalty tax of one-half of 1 per cent on their deposits if they fail to maintain the parity between the four kinds of money—the national-bank notes, the legal-tender notes, and the silver dollars, and the gold coin.

A NEW UNITED STATES NOTE.

Mr. McCLEARY. I have been trying to picture this note that you have been describing. Am I to understand that it is a United States note on one side and a bank note on the other?

Mr. WALKER. Yes; it is the legal-tender note except to the bank that has its note printed on the back, and to that bank it is purely a currency note, like the rest of the notes it issues against its assets.

Is it not a fact that neither the Government Treasury here nor any subtreasury can currently redeem paper with the current funds as banks can do it? The Government can not do it without the actual presence of the legal redeemer? I address my remark to either Secretary Fairchild or Secretary Gage, or to both.

Mr. FAIRCHILD. Will you repeat that?

TREASURY REDEMPTION EXCHANGE.

Mr. WALKER. Can the United States Treasury or any of its sub-treasuries currently redeem paper money as freely, immediately, and economically as the banks can redeem the paper money themselves?

Mr. FAIRCHILD. Do you mean can the Treasury redeem bank notes as economically?

Mr. WALKER. Paper money of any kind—paper money that they issue—as easily as the banks can redeem money they issue.

Mr. FAIRCHILD. That I can not say. That is a matter of statistics. I could not say as to the cost.

TREASURY REDEMPTION TO COST \$27,000,000 A YEAR.

Mr. WALKER. For the cost of keeping the redemption of moneys—the whole system—the United States Government has held between \$200,000,000 and \$300,000,000 of money for twenty years. It is a cost to the people who are taxed to keep it of 6 per cent interest on that sum of money. Now, it is proposed in both your bill and in Secretary Gage's bill to add \$200,000,000 more, bringing the money in the United States Treasury up to \$450,000,000, and the interest on that costs the people 6 per cent. That makes \$27,000,000 a year for the privilege of the United States Treasury redeeming this paper money—that is, we have got to keep that amount on hand. Not only that, but the machinery of redemption, in the sense of products meeting products in the general funds of a bank, and their paper representatives, including currency notes, with its other obligations redeeming each other, not Treasury redemption, is not as convenient as it would be in a banking system outside the Treasury. Is not that a fact?

Mr. FAIRCHILD. That is a fact.

Mr. JOHNSON. Do you eliminate the United States Treasury in your scheme?

Mr. WALKER. Certainly. It is nothing to the public whether the Treasury receipts are more or less under my bill.

My bill absolutely relieves the United States Treasury from having anything to do with the current redemption of any money of any kind, and puts it on the banks, and on the theory that the banks can do it at no cost, that gold freely flows into the banks, and flows out of them where they issue true currency notes—paper money. That absolutely relieves the Treasury. My claim is that my system would relieve the

United States Treasury of keeping \$400,000,000, more or less, that your bills require to be kept in the Treasury.

Mr. FAIRCHILD. What is the \$400,000,000?

Mr. WALKER. There is \$280,000,000 now in the United States Treasury, more or less—some \$240,000,000 to \$288,000,000; \$288,000,000 it has averaged in some years.

Mr. NEWLANDS. Of what?

Mr. WALKER. I mean of "free moneys," as reported. Call it Government working note redemption capital if you choose. England has a working capital of about \$20,000,000; France a working capital of about \$30,000,090, and Germany a working capital of about \$20,000,000, and we have \$280,000,000.

PROPOSITION TO HAVE \$350,000,000 IN THE TREASURY.

Now, Mr. Gage proposes to take out \$125,000,000 of this \$288,000,000; he proposes to add \$200,000,000, making \$325,000,000, which is equivalent to adding \$200,000,000 to what we now have; while my bill relieves the Government of the necessity of keeping any money whatever except an ordinary exchequer balance, the same as any man keeps his business cash.

Mr. FAIRCHILD. Then somebody else is to take care of those things.

Mr. WALKER. It costs the Government interest on it and would not cost the banks anything.

Mr. FAIRCHILD. They do not make interest on the money in their vaults.

Mr. WALKER. That is true, but they would not have to keep any additional sum there under my bill.

Mr. FAIRCHILD. They would take care of the notes, and the banks would not have to do any more than now. Is that it?

BANKS NOW SUSTAIN THE TREASURY, COSTING THE PEOPLE \$50,000,000 A YEAR.

Mr. WALKER. The banks to-day sustain the Treasury and are at the expense of sustaining the \$1,000,000,000 that are in circulation. That is my assumption. Now, if the \$1,000,000,000 that is in circulation pays only 1 per cent, the people are in fact paying the difference between 1 and 6 per cent on the whole \$1,000,000,000 the way it is now issued—that is, \$50,000,000 a year in higher rates of interest. I ask you if that is not a fact?

Mr. FAIRCHILD. I do not get at that.

Mr. WALKER. Suppose there was no paper money in existence except that issued by the banks, and suppose the demands of the people call for \$1,000,000,000 of paper money, as now, and the banks issued it and kept that amount in circulation. We will put it in round numbers. The banks would make on that what their rates of loans and discounts were on their general business.

Mr. FAIRCHILD. Yes.

UNITED STATES TREASURY TO PAY THE CURRENCY IN CASE OF INSOLVENCY UNDER THE WALKER BILL.

Mr. WALKER. If they are not making any money on that, then the banks are losing that much that they otherwise would make under the English or Scotch or French or German or Suffolk or State bank system, or under the Walker bill. Is not that true?

Mr. FAIRCHILD. Of course; that is a mathematical statement; that if they do not loan the money then they are not making the interest on it.

Mr. FOWLER. Ultimate redemption, however, is thrown upon the Government.

Mr. WALKER. Yes, when a bank becomes insolvent, \$200,000,000 of it; but there is a tax that more than covers it.

Mr. FOWLER. But there is no limit to the tax?

Mr. WALKER. Yes.

Mr. FOWLER. The Government is responsible absolutely?

Mr. WALKER. Certainly; but there is a tax that will pay for that.

Mr. FOWLER. But if that tax doesn't happen to cover it the Government must take it up?

Mr. WALKER. Certainly; the Government guarantees in a statute the same as now, with a bond.

Mr. FOWLER. It is an absolute guarantee for all the banks may issue.

Mr. WALKER. Yes. The money is just as safe as the bonds, except it is written in the statute instead of being written in the bonds.

Mr. HILL. There is a 5 per cent held by the Government of its own money against its own notes.

Mr. WALKER. Yes; it would amount to \$10,000,000, and the bank also keeps with the Government an amount equal to 5 per cent of its currency, which it can not count in its reserve.

Mr. JOHNSON. Are you talking about your bill?

Mr. WALKER. I am talking about my bill.

TRUE VISIBLE GOLD.

Mr. WALKER. Now I want to call your attention to another remarkable thing. In the whole of the United States there was specie in the old State banks, in 1860, of \$2.69 per capita. To-day there is gold in the national banks to exactly the same amount—\$2.69 per capita.

Mr. FAIRCHILD. Does that include all the old State banks?

Mr. WALKER. All; yes, sir.

Mr. FAIRCHILD. Then the gold in the national banks is equivalent to the gold in the State banks?

Mr. WALKER. It is fair to say that the gold in banks in 1860 per capita was \$2.69 in this country. To-day it is the same per capita in the national banks alone. The amount in the State banks is not given to-day, but they hold of cash 44.7 per cent as much as the national banks. It is reasonable to suppose that there is \$1.20 per capita of gold in State banks, which, added to the other, makes a specie, probably gold, to-day, per capita, \$3.89, to \$2.69 in 1860. Now, \$3.96 in gold to each of the 73,000,000 amounts to \$272,300,000 in gold. The visible gold, as shown in the Comptroller's report, December 7, 1896, page 22, was \$421,236,388. Visible gold not in banks of loan and discount then was \$148,936,388. Total gold in the United States is \$696,270,542, by the report of the mint.

I did not suppose it was anywhere near that amount, but my recent investigation, and the fact that gold is paid in for taxes in St. Louis and other cities by comparatively poor people, leads me to think that there is more than that. I should not be surprised if \$800,000,000 developed if we had a proper banking system that fully restored confidence. The visible gold per capita—not the gold in pockets, but the visible gold in the various institutions—is \$5.77, and the total gold in the country is \$9.54 per capita that we know of, not counting that which is hoarded. I take the statistics as they are given.

Mr. NEWLANDS. Will you please state again what the per capita of visible gold is?

Mr. WALKER. Five dollars and seventy-seven cents. That was found by the investigation of Mr. Eckles, and was stated in his report of December, 1896, page 26. My point is, that if we had a banking system that would establish confidence, such as is felt in Germany, France, Canada, and Scotland, would not a large amount of gold that is not now visible be visible by flowing into banks at once, or at least very soon?

Mr. FAIRCHILD. I think so. I think if there was entire confidence in our monetary condition that we would see a great deal more gold.

SUFFOLK SYSTEM.

Mr. WALKER. The New England banking system—the Suffolk system—was understood to be about as safe a system as any country has ever had in its practical workings; so much so, that in 1857 scarcely a bank failed, and when they suspended specie payment (and then because New York had suspended and they were forced to do it for that reason) they paid, during the whole of that suspension to anybody that asked for it in the legitimate way of business, all the specie they wanted; and gold did not go to a premium by the smallest fraction during that nominal suspension.

Mr. McCLEARY. When was that?

Mr. WALKER. In the panic of 1857. The statements that I have made are matters of history.

Mr. McCLEARY. I do not doubt your statement, but was simply asking for information.

Mr. WALKER. Now, at that specie security we could issue to-day \$1,454,075,000 of currency, with 13½ per cent gold back of it, as New England banks then had.

Mr. McCLEARY. And have as good security?

SUFFOLK SYSTEM NATIONALIZED IN WALKER BILL.

Mr. WALKER. Yes. And have the same amount of gold in the banks back of the currency now, as through the New England system for forty years—the Suffolk system. The Walker bill is the Suffolk system nationalized. It is absolutely and purely that, and nothing else; that is to say, essentially the same as the Scotch and the Canadian and the German and the French systems now. Issuing \$800,000,000 of currency there would be visible gold in the banks within a small fraction of 24½ per cent, about double of what there was in the New England banks under the Suffolk system. The visible gold that would flow into the bank immediately would be 52 per cent, more than half, which is an unheard of percentage of gold to currency issued.

In view of these facts, have you any doubt about the safety in the specie reserve to maintain the \$800,000,000 currency that it is contemplated would be issued in the near future?

Mr. FAIRCHILD. I have no trouble on the specie question. I think there will be ample for that.

IMMENSE AMOUNT OF GOLD.

Mr. WALKER. In view of this immense amount of gold that we now have in banks and the additions that would find their way into the banks, namely, 52 per cent now of gold to \$800,000,000 of currency, if that is issued, is not the retaining of \$200,000,000 of legal-tender notes that the

banks can keep in reserve a good and not an evil in furnishing a redemption agent and a reserve? That is what I am getting at. I have introduced these facts, not with reference to the gold question, but to discuss this question: If the Government is relieved from current redemption, and it is put on the banks, and the banks have this immense amount of gold, is not the assumption of "current redemption" by the banks entirely safe?

Assuming what I have stated is correct, is it not a good and not an evil to continue \$200,000,000 of legal-tender notes so that they can be used as available funds by banks to supply and transfer balances rather than to be at the expense of transporting gold?

Mr. FAIRCHILD. It would not be necessary to transport the gold any more than we do at New York at the present time. There they have to put the gold in charge of the clearing house, and they have simply a piece of paper to represent it. It is a mere matter of ingenuity.

Mr. WALKER. In the absence of this \$200,000,000 of legal tender they would have to accumulate this \$600,000,000 of gold?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Now, if that is so, would it not be a good to the country not to require them to accumulate the \$600,000,000, but be satisfied with \$400,000,000, and let them hold \$200,000,000 of greenbacks in the place of \$200,000,000 gold?

Mr. FAIRCHILD. Who is behind the \$200,000,000 in greenbacks?

Mr. WALKER. The banks. They have to redeem them the same as their own currency.

Mr. FAIRCHILD. Where do they get the gold for that?

Mr. WALKER. The same as to redeem any other currency notes of the banks—out of the \$621,000,000 of gold.

Mr. COX. Where do they get the \$421,000,000?

Mr. WALKER. It is "visible" in the country now.

TOO MUCH GOLD REQUIRED.

Mr. WALKER. As I understand it, Mr. Fairchild, the bill of the commission would destroy all the Treasury notes and legal-tender notes; it would so use the silver dollars that they could not be had to use in the cash reserves of banks; and this for the purpose of making it impracticable for banks to get any other money but gold to redeem their notes with. That would be the effect of it?

Mr. FAIRCHILD. That would be the effect of it.

Mr. WALKER. How much gold would it take to furnish all cash reserves now held by national banks?

Mr. FAIRCHILD. I have not figured on that.

Mr. WALKER. The report of the Comptroller of the Currency says that \$389,000,000 in round numbers in cash reserve is held in the national banks, and that in the State banks there is \$152,000,000 cash reserve, and he estimates there is about 12½ per cent of the State banks that do not report to the Comptroller. That would make the probable cash reserve now in the banks \$562,883,000. The question is whether that amount in gold would not overload the banks, whether it is not an unreasonable expectation, and even if the expectation could be realized whether it would not be an exceedingly uneconomical procedure to compel the banks to keep \$562,000,000 of gold, upon which the country must lose interest. That is to say, "a sufficiency is enough." The moment they get gold to more than what makes absolute safety the people are losing 6 per cent interest on the unnecessary surplus.

Mr. FAIRCHILD. Certainly.

Mr. WALKER. We want enough, and have both gone on the idea that a sufficiency is enough; but is not what is provided for in the commission bill an unreasonable amount?

Mr. FAIRCHILD. Possibly it is. I do not think it is an unwise amount.

"TRUE BANK CURRENCY" BETTER THAN "BOND SECURED CURRENCY"—GAGE BILL "TENTATIVE."

The CHAIRMAN. Mr. Secretary, you say your bill (H. R. 5181), which you have drawn and presented to the committee, "is not final, but rather a tentative step;" and again you say, "it will lead to conditions ultimately desirable." In order to know the virtue and value of the bill and the desirability of entering upon its enactment, it is necessary for the committee to know what you have in view and what you would call the completed whole.

Secretary GAGE. It would be a condition of affairs where there was a system of bank notes issued in the United States made safe to the people without the deposit in the hands of a trustee of specific security therefor, wisely limited and restricted by law so as to reduce to the minimum the possible abuses which might grow out of such a responsible duty, and eliminating substantially or entirely the Government of the United States from its present method of paying its debts by giving another debt in payment.

The CHAIRMAN. That completes the answer?

Secretary GAGE. I think it does.

The CHAIRMAN. Mr. Gage, in reply to the question as to what your scheme was tentative to, and to what you looked as final, you made a statement which is in the record. Upon reading your answer to the question, are you satisfied with it? [See above.]

Secretary GAGE. Yes, sir; it might be somewhat extended, but I think the idea is covered in that.

The CHAIRMAN. Mr. Fairchild, you listened to the statement of Mr. Gage. Do you agree with his idea?

Mr. FAIRCHILD. Yes.

TRUE BANK CURRENCY.

The CHAIRMAN. I desire to ask a question or two as to a "true bank currency" for the purpose of getting it in the record, so the people reading the record will know what we are talking about. A bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including its currency notes?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Secondly, a bank pays out every dollar it puts in circulation upon the receipt from the person taking it of ample security for its redemption?

Secretary GAGE. That is, in good practice and theory.

The CHAIRMAN. Thirdly, the currency of a bank is redeemed at its place of redemption by its general "current funds"—which are titles to products, and which are in the hands of another bank that acts as its agent in redeeming its notes, and not in actual coin?

Secretary GAGE. What do you mean by "current funds?"

The CHAIRMAN. I will put it differently. In the current funds that it has on deposit in its correspondent bank for the purpose of meeting all its obligations, including its currency notes?

Secretary GAGE. Yes, sir; that is true.

The CHAIRMAN. On the other hand, a (1) government gets nothing in the regular course of its business when it pays out its own currency, and (2) the coin must be constantly carted into the vaults to redeem, and carted out in redemption of paper money.

Secretary GAGE. The first part of the statement is correct, that when the Government pays out it does not acquire anything which it keeps to serve as an ultimate redemption for the note it pays out. The note it pays out is in consideration for services already rendered or for goods and commodities already received and used.

The CHAIRMAN. If you will turn to page 175 of the Treasurer's report for 1897 you will find that there was redeemed at the Treasury last year \$113,000,000, total redemption of national-bank notes. In the second column of the table you will see there was \$33,000,000 of money that was actually sent out by express—that is to say, about one-third. The rest of the redemption was in checks on the subtreasuries sent to banks, as I understand?

Secretary GAGE. Yes, sir.

The CHAIRMAN. Now, it is equipped with funds, either greenbacks or coin; if it was coin redemption, that coin had to be carted into the subtreasury from some source in order to meet the balance of \$80,000,000 redemption?

Secretary GAGE. That would be supplied in some manner.

The CHAIRMAN. Then the answer to my question, of course, is in the affirmative—that is, essentially true.

Secretary GAGE. That is substantially correct.

The CHAIRMAN. The currency issued by a government redeeming government currency can not be redeemed in general current funds—which are, of course, the titles to products—for it has none and can get none. The bank must send its specie to redeem its notes with, or the government must get specie by taxation or selling bonds—one or the other method?

Secretary GAGE. I see no other avenues.

The CHAIRMAN. I want to call your attention to the taxes proposed in the bill prepared by Secretary Gage and Ex-Secretary Fairchild.

Mr. BROSIUS. I would like to ask if you mean that these propositions embody the theory of banking?

The CHAIRMAN. And the practice.

Mr. BROSIUS. Do you mean to say these propositions express the actual practice of banks always?

The CHAIRMAN. I do.

Mr. BROSIUS. I can not give my unqualified assent now, and at some time I would like some explanation of these propositions.

The CHAIRMAN. Now is the time to record it.

BANK ASSETS.

Mr. BROSIUS. You say a bank keeps at all times, in the regular conduct of its business, assets more than equal to every obligation against it, including currency notes. If that is so, no bank could ever break up, and banks are breaking up.

The CHAIRMAN. I do not mean insolvent banks; I mean sound banks.

Mr. BROSIUS. That is an exception to the proposition.

The CHAIRMAN. It is implied in the questions.

Mr. BROSIUS. In the second place, you say the bank pays out every dollar it puts in circulation upon the receipt, from the person taking it,

of ample security for its redemption. If that is true there would be no bad debts. If all the money paid out is secured by ample securities, when are notes discounted by a bank not good at all?

The CHAIRMAN. I am speaking of a sound bank.

Mr. BROSIUS. Then, if it is the theory of banking, it is all right.

The CHAIRMAN. No; it is not the theory only; it is the actual practice.

Mr. BROSIUS. In the average of banks?

SECURITIES TAKEN FOR BANK CURRENCY.

The CHAIRMAN. No; I mean to say that where a bank pays out its currency notes it always takes from the man who receives the currency what it considers to be sound securities—it may be mistaken, but what it considers are at the time sound securities—for more than it pays out in currency notes.

Mr. BROSIUS. That is right, but that is a totally different proposition.

TRUE BANK CURRENCY REDEEMED BY THE MAN WHO TAKES IT.

The CHAIRMAN. No, sir; the second proposition is that the man who borrows, as a matter of fact, in good banking, himself redeems the notes that he takes from the bank. That would come in a little later, but I put it in now: Namely, the banks take the personal time note of the borrower on ninety days, and if its currency is averaged to be redeemed once in every ninety-two days, four times a year, the man who took the currency for the proceeds of the discounted note actually deposits the funds in the bank which redeems that currency. That is not theoretical, but practical, banking. These propositions are absolutely true, and can be found in the active banking of France, Germany, England, Scotland, Canada, and every other country that has a sound and true banking currency; and you can not have sound banking where the public Treasury is the redeemer.

NORMAL CIRCULATION.

Mr. NEWLANDS. Mr. Secretary, Mr. Fowler, in one of his questions, used the term "normal circulation." What do you understand by that?

Secretary GAGE. I do not understand anything by it. I do not know what is normal, and I do not believe anybody does or can tell; the law of supply and demand operates, and that determines what is normal.

The CHAIRMAN. And whatever that shows is taken out is normal?

Secretary GAGE. I think so.

Mr. FOWLER. Then it does mean something?

The CHAIRMAN. It means that whatever circulation averages to be taken out is thus shown to be normal.

Secretary GAGE. With that correction of my expression as to what the word meant, I should say yes.

ELASTICITY OF CURRENCY.

Mr. NEWLANDS. It is expected that the circulation that these bills call for will have the element of elasticity?

Secretary GAGE. It is expected it will.

Mr. NEWLANDS. As a matter of fact, is not this bank circulation practically an extension of the check and deposit system?

Secretary GAGE. That is what it is.

Mr. NEWLANDS. A practical extension of the check and deposit system?

BANK CURRENCY CHECKS.

Secretary GAGE. Substantially; a bank note issued by a banker is nothing more than a memorandum check which will draw money from the bank at any time at the pleasure of the holder.

Mr. NEWLANDS. It is a check payable to bearer?

Secretary GAGE. Yes, sir; it is, substantially.

Mr. JOHNSON. Do I understand you to say that an elastic currency, one which would expand and contract with the varying needs of trade, is as readily obtained on bond security as under some other form of security—as under security issued against the assets of the bank with a guaranty fund?

Secretary GAGE. I do not say that the secured circulation is as useful as the unsecured; that is another side of the question. I do not think it is useful to tie up capital needlessly.

Mr. JOHNSON. That is the point I wished to develop.

WALKER BILL.

The CHAIRMAN. I want to say to Mr. Fairchild and Secretary Gage that the bill prepared by myself meets exactly the conditions that you have suggested ought to be met in the banks you have designated in a proper banking system whenever you can get it.

Suppose there was no paper money in existence except that issued by the banks, and suppose the demands of the people call for \$1,000,000,000 of paper money, as now, and the banks issued it and kept that amount in circulation. We will put it in round numbers. The banks would make on that what their rates of loans and discounts were on their general business.

Mr. FAIRCHILD. Yes.

BOND-SECURED CURRENCY ROBS A BANK OF CAPITAL.

Mr. WALKER. If they are not making any money on that, then the banks are losing that much that they otherwise would make under the English or Scotch or French or German or Suffolk or State bank system, or under the Walker bill. Is not that true?

Mr. FAIRCHILD. Of course; that is a mathematical statement; that if they do not loan the money then they are not making the interest on it.

SECURE ON GOLD STANDARD.

Mr. WALKER. Mr. Gage, do you understand that France is absolutely secure on the gold standard?

Secretary GAGE. Yes; I think so.

Mr. WALKER. Do you not think Germany is absolutely secure on the gold standard?

Secretary GAGE. I believe so; but it does not make so much difference to me what Germany or France are on as it does what we are on, because our contracts are domestic and relate to all the trade and commerce which we get.

Mr. WALKER. I make the statement that the bill drawn by me puts us on precisely the same standard, in precisely the same manner, with

a little different machinery, as France or Germany, and if that is the fact, and that bill could be passed and this Monetary Commission bill could not, and mine accomplishes what you declare ought to be accomplished—

Secretary GAGE (interrupting). Then it would be perfectly satisfactory to me in that particular.

The CHAIRMAN. When a bank issues currency it has the right to take out against its assets to the limit of its capital. It secures currency to the amount of its capital, puts it in its vaults, and keeps out what it well can, having currency always in its vaults to put out whenever there is a call for it and they can get it out. It has, in addition to that, the capital, which is not depleted by a dollar in loaning currency.

Secretary GAGE. That is right.

CURRENCY ISSUED AGAINST ASSETS.

The CHAIRMAN. If they have to put up bonds they can buy at par and issue currency to the amount of the capital; it absorbs every dollar of their capital.

Secretary GAGE. That is right.

BANK CURRENCY REDUCES INTEREST RATES.

The CHAIRMAN. Then, if a bank can make loans of its deposits to an amount sufficient to make money enough to pay its expenses of every name and nature and they just balance (assuming that they can keep out all their currency)—then they can make loans at one-half the rate of interest they could if the capital was used up to take out currency secured by bonds.

Secretary GAGE. That is substantially true.

The CHAIRMAN. Now, every dollar of currency, where the currency is issued against assets that remain in the vault of a bank, remains there without the slightest loss to the bank, except the printing of it.

Secretary GAGE. That is true.

* * * Suppose that with a bank the same circular movement of gold goes on that was spoken of a little while ago. The probability is that every bank in every money center redeems every day from 10 to 15 per cent of its liabilities, creating new liabilities to someone else, and the next day liquidating again and again, always new creditors settling and satisfying former creditors. There is a substantial redemption of a bank's liabilities. A bank's notes are not different in their essential character from the bank's deposits. They are the same in their nature and are governed by the same general principles.

BANK CURRENCY, THE FARMERS AND WAGE EARNERS' "CERTIFICATE OF DEPOSIT" AND BANK CHECK.

Mr. WALKER. Is it not the practice of merchants and manufacturers and those living in cities to leave the proceeds of a personal note discounted for them by a bank in the possession of a bank in the form of an "individual deposit," to be drawn out by checks, drafts, etc.?

Mr. FAIRCHILD. Yes.

Mr. WALKER. On the other hand, is it not the almost universal practice of the people who live in sparsely settled sections of the country, and especially the farmers, to take home with them the currency notes

of the bank discounting their time notes rather than to leave the proceeds in the bank discounting or in another bank?

Mr. FAIRCHILD. I understand that to be the case.

BOND-SECURED CURRENCY OPPRESSIVE.

Mr. WALKER. Then is not a very great hardship worked to those sections of the country under a banking system which does not allow the free issue of paper on the true banking principle?

Mr. FAIRCHILD. I consider it so.

Mr. WALKER. Is not a currency note to the person holding it the equivalent of a certificate of deposit or a certified check in the bank?

Mr. FAIRCHILD. It is, except that it is more available for him.

Mr. WALKER. Better for his purpose?

Mr. FAIRCHILD. Yes.

Mr. WALKER. Then it follows, does it not, that any great expense put upon banks in getting currency notes to issue is a great expense, hardship—in fact, oppression—to those citizens who do not use checks, drafts, etc., in their transactions, and who are practically compelled to use currency or do without banking accommodations?

Mr. FAIRCHILD. Yes, sir.

BOND-SECURED CURRENCY CHECKS ENTERPRISE.

The CHAIRMAN. It follows, then, that a currency made expensive, or one that lessens the amount of loanable funds the bank has on any given amount of capital and deposits, checks enterprise by making production difficult and expensive to those people who naturally and inevitably are shut up to the use of currency in getting bank accommodations instead of using checks, drafts, etc.?

Mr. FAIRCHILD. That is true.

Mr. HILL. Do you mean by your answer to imply that there should be unlimited bank issues?

Mr. FAIRCHILD. No.

Mr. HILL. Does not the question asked by Mr. Walker involve that?

Mr. FAIRCHILD. I did not so understand it.

Mr. HILL. Will you kindly ask Mr. Walker to have that read again, and in the light of that repeat your answer?

Mr. WALKER (reading the question again). That does not involve quantity at all. Do you wish to change your answer?

Mr. FAIRCHILD. No.

CURRENCY ISSUED FREELY LOWERS RATE OF INTEREST.

Mr. WALKER. It follows, then, that by issuing true bank currency a bank can make its loans to the people patronizing it at as much lower rate of interest than it could if it had only its capital and deposits to lend, and no currency, as the currency it has in circulation bears to the whole amount of its loans and discounts, and pay the same dividends on its capital stock?

Mr. FAIRCHILD. I should say that by the amount its circulation increases its resources it is enabled proportionately to give a greater accommodation to its customers, and necessarily at a less rate.

Mr. WALKER. Compelling a bank to buy bonds at par to secure its currency notes, even if the bank secures notes to the par of such bonds,

depletes its loanable funds, as compared with the "true bank currency" issued against its assets, by every dollar it pays for such bonds, does it not?

Mr. FAIRCHILD. I think so.

Mr. WALKER. Then, compelling banks to use "bond-secured" currency compels the people borrowing of such banks to pay a higher rate of interest as compared with banks issuing "true banking currency" against their assets—as is done in every other country—in proportion to the amount of such currency the bank uses in comparison to its whole loans and discounts?

Mr. FAIRCHILD. It seems to me that is very much the same as the other question. I would repeat my answer to the other question.

TRUE BANK CURRENCY ISSUED BY COUNTRY BANKS.

Mr. WALKER. Mr. Fairchild, the statistics collected by the Treasury Department show that in Vermont all the banks combined (not a single bank) kept in circulation an average of 103 per cent of the currency to its capital. You will find the statistics on page 441 of the hearings before this committee in 1896. Old Virginia kept out 96 per cent; North Carolina 95 per cent. You will find by turning to page 458 that 55½ per cent of the country banks in Massachusetts—outside of Boston, which had the least currency—had over 64 per cent; Ocean bank, Newburyport, 91 per cent to capital; Powow River, Salisbury, 110 per cent; Brighton, 112 per cent; city of Cambridge, 96 per cent; Malden, 87 per cent. This indicates, does it not, that the poorer sections of the country, the agricultural districts, like Vermont and North Carolina and Virginia, can keep in circulation if they are allowed to do so, about 100 per cent of currency to capital?

Mr. FAIRCHILD. It shows that they did.

The CHAIRMAN. Is it not a fact that the average of the banks in the country can keep in circulation nearly double the currency at certain seasons of the year over what they can at other seasons?

Mr. FAIRCHILD. I do not know the exact proportions.

Mr. WALKER. But usually much more?

Mr. FAIRCHILD. It is usually much more.

BORROWERS GET THE ADVANTAGE OF "FREE CURRENCY ISSUE."

Mr. WALKER. Where the business of banking pays a larger profit than other business of like labor and risk, will not capital be invested in new banks in competition with existing banks until the profits in banking are reduced to the general average of incomes in other investments?

Mr. FAIRCHILD. That is the natural law of such things, in banking as in anything else.

Mr. WALKER. Is it not within your knowledge that in Canada, Scotland, Germany, and France the rates of loans and discounts all over those countries are very nearly the same where the same risk is incurred and the same time and amount is involved?

Mr. FAIRCHILD. That is the case in Canada, and I understand in Scotland also.

Mr. WALKER. It is because the branches in the country allow them to circulate such an enormous amount of currency that it is possible. It is the currency privileges of banking that they could not exercise if they were strictly a city bank; but with branches out through the

country it enables them to circulate their currency, which keeps the rates down in the country as compared with the city?

Mr. FAIRCHILD. I think that has a great effect upon it.

INTEREST REDUCED ONE-HALF.

Mr. WALKER. Assuming that the money made on its deposits by a bank with a capital of \$100,000 was exactly equal to its expenses of every name and nature, including the current redemption of its currency notes, if it has any, and assuming the bank has no currency notes to issue and has its \$100,000 funds equal to its capital loaned to customers on notes, each having three months to run and discounted at the rate of 6 per cent per annum, the net profit on its business would just equal 6 per cent on its capital stock, would it not?

Mr. FAIRCHILD. Its deposits pays its expenses—

Mr. WALKER. Of every name and nature. It has \$100,000 capital to loan and no currency?

Mr. FAIRCHILD. It will get 6 per cent, of course.

Mr. WALKER. If it can take out \$100,000 currency and keep it in circulation, it can make loans at 3 per cent and make the same amount of profit?

Mr. FAIRCHILD. Exactly.

CITY BANKS CAN NOT ISSUE CURRENCY.

Mr. WALKER. Is it possible for city banks without branches to circulate very much currency—those banks whose business is what might be called a strictly city business?

Mr. FAIRCHILD. It is not.

Mr. WALKER. Practically it can circulate none; it comes back in the clearing house the next morning?

Mr. FAIRCHILD. Yes.

TAXING CURRENCY OBJECTIONABLE.

Mr. WALKER. Is not this 2 per cent tax on currency between 60 per cent and 80 per cent, in view of what I have said about Vermont and Virginia, a restriction working a hardship, and does it not work exclusively to the expense and hindrance of the circulation in country districts, where they actually need considerably above the 60 per cent?

Mr. FAIRCHILD. I think that is the objection to it. That is my objection.

BANK LOSES INTEREST ON BOND-SECURED CURRENCY.

Mr. WALKER. Where currency is issued as it is to day, does not the bank actually lose on each dollar of currency not in circulation an amount equal to its rates of loans and discounts, less the profit the bank would make were all its currency notes in circulation?

Mr. FAIRCHILD. Yes; that is true.

Mr. WALKER. Does not any system of currency that makes the currency held in the vaults of a bank an actual loss to the bank under any circumstances compel the bank to increase the loan and discount rates to the people to an amount equal to the losses made on the currency that it holds in its vaults?

Mr. FAIRCHILD. It does.

UNITED STATES BOND-SECURED CURRENCY A "PER CENT RATE CURRENCY."

Market price of United States 4 per cent bonds of 1907.

	Quotations of, market price of bonds.		Rate real- ized.	National-bank currency notes in circulation.
June 30—			<i>Per cent.</i>	
1881.....	{ 117 $\frac{7}{8}$	R. }	3. 047	\$312, 223, 352
	{ 118 $\frac{1}{8}$	O. }		
1882.....	{ 120	.....	2. 926	308, 921, 898
1883.....	{ 118 $\frac{7}{8}$	R. }	2. 895	311, 963, 302
	{ 119 $\frac{1}{8}$	C. }		
1884.....	{ 118 $\frac{1}{4}$	R. }	2. 909	295, 175, 334
	{ 119 $\frac{1}{4}$	C. }		
1885.....	{ 123 $\frac{1}{8}$	.....	2. 654	269, 147, 690
1886.....	{ 126	R. }	2. 403	238, 273, 685
	{ 127	O. }		
1887.....	{ 125 $\frac{1}{2}$	.....	2. 448	166, 625, 658
1888.....	{ 127 $\frac{1}{8}$	R. }	2. 243	155, 315, 353
	{ 128 $\frac{1}{8}$	C. }		
1889.....	{ 128 $\frac{1}{2}$	R. }	2. 095	128, 867, 425
	{ 129 $\frac{1}{2}$	C. }		
1890.....	{ 121 $\frac{1}{2}$	R. }	2. 451	126, 323, 880
	{ 122 $\frac{1}{2}$	O. }		
1891.....	{ 116 $\frac{1}{2}$	R. }	2. 735	123, 915, 643
	{ 117 $\frac{1}{2}$	O. }		
1892.....	{ 116 $\frac{1}{2}$	R. }	2. 666	141, 661, 533
	{ 117 $\frac{1}{2}$	O. }		
1893.....	{ 109	R. }	3. 200	155, 070, 821
	{ 110	C. }		
1894.....	{ 113	R. }	2. 749	171, 714, 552
	{ 114 $\frac{3}{4}$	C. }		
1895.....	{ 112	R. }	2. 753	178, 815, 801
	{ 113 $\frac{1}{2}$	O. }		
<i>New "fours" of 1925.</i>				
February 5, 1896.....	112	.....	3. 351	212, 023, 386

This table shows that the 4 per cent bonds of 1907 bonds average to sell at prices to the purchaser in 1889, per cent 2. 095

Average to pay at prices sold for during 1887, 1888, and 1889, three years per cent.. 2. 292

From 1883 to 1892, the eight years previous to the panic of 1893 per cent.. 2. 462

Note circulation of national banks in 1881 \$312, 223, 352

Note circulation of national banks on June 30, 1890..... 126, 323, 880

And this decrease in bank-note circulation was before the increase in currency under the silver act of July 14, 1890.

National bank note circulation one year later, January 30, 1891, was only 123, 915, 643

National-bank note circulation on February 5, 1896, because of ruined Government credit, has run up to 212, 023, 386

Mr. WALKER. I wish you to look carefully at this table, and answer this question: Whether it is not fair to say that a currency that shrinks as bonds appreciate and that increases as bonds depreciate is a freak currency?

Mr. FAIRCHILD. Well, I should think that it is a very bad currency, but exactly what the financial and scientific application of "freak" is I am not prepared to say.

OUR CURRENCY SYSTEM THE WORST IN THE WORLD.

Mr. WALKER. In testifying before the committee last year, after considerable discussion and answering questions upon the point, the Comptroller of the Currency, Mr. Eckels, put his appreciation of the financial system in these words: "Yes; the United States has the worst financial and currency system of any leading nation." What do you think about our financial and currency system, as compared with those of other leading nations of the world?

Mr. FAIRCHILD. I think it is the worst.

Mr. WALKER. You understood the question to be comparatively and not specially or personally denouncing our currency, but that, as compared with other nations, it is the worst of any you know of among leading nations?

Mr. FAIRCHILD. Yes.

Mr. BRONIUS. I understand that.

PROTECTION OF STOCKHOLDERS.

Mr. FAIRCHILD. Now, there is no way that I know of to protect the stockholders and depositors except by greater vigilance in your examinations and that sort of thing.

Mr. VAN VOORHIS. Do you not think we could retire a portion of the obligations of the Government, and by retiring the small notes and refunding the bonds that are now outstanding, on a 2½ per cent basis, perhaps, do you not think we could have a secured currency?

Mr. FAIRCHILD. That would not be sufficient. We could have secured currency, but I do not think that a secured bank-note currency at all answers the purpose of a community in its true sense of a bank currency.

The CHAIRMAN. What do you mean by "secured?"

Mr. VAN VOORHIS. Secured by bonds.

Mr. FAIRCHILD. Of course, it is all secured, but it is the method of securing it.

Mr. VAN VOORHIS. I have questioned all the way through the propriety of issuing this credit currency unless we could have a secured currency based on the bonds of the Government. I believe that would be better.

Mr. FAIRCHILD. You can not have a currency based on the deposited bonds of the Government that is any more secure than the currency we offer here. It is not a bit more secure and not nearly so useful.

Mr. WALKER. Are not the currency notes issued by banks every way sound, and quickly available, with the guaranty for the payment in case of insolvency of the bank written in the statute authorizing the issue of them, and appropriating the money necessary to pay for and create a safety fund, to pay them—in every way as safe as a currency created by bonds?

Mr. FAIRCHILD. I should say so. It is an obligation of the Government in one case as it is in the other, I think.

The CHAIRMAN. The principle of the present law is to take out of the bank the day it begins business all of its capital and lock it up so it can not loan it.

Mr. TAYLOR. I agree with you.

Mr. COX. * * * Now, you being an experienced man in finance, is not the community itself the best judge of what currency it needs and what currency the community can handle?

Mr. FAIRCHILD. Undoubtedly.

Mr. COX. Then would you not be in favor of a law that would repeal this tax and prohibit the local currency?

Mr. FAIRCHILD. My individual opinion on that subject is now and always has been that the United States should provide as perfect a banking system as it can. * * * The laws and constitutions of many of our States are such that you can not get any local circulation under them. Texas, I believe, absolutely prohibits a thing of that kind. Therefore, in order to make anything that is complete in the attitude of our States toward it now, it is evident that it is not only better to have a national system, but it is absolutely necessary. To supply Texas, for instance, Arkansas, and quite a number of those States, it is absolutely necessary to have a national system, or else they would have to reverse their whole action, and that would be a long process.

The CHAIRMAN. * * * Under the Walker bill, the currency of which is issued on the true currency principle, the profit is identical on each \$1 in circulation.

Secretary GAGE. I have no doubt, Mr. Chairman, that your bill offers better inducements and more profit to the bankers than our bill.

The CHAIRMAN. Have you any doubt that it works out just as safe to the Government, to the banks, and to the holders of currency?

Secretary GAGE. No, I have not; with proper restrictions and limitations.

BANKS PROTECT BORROWERS IN PANIC.

The CHAIRMAN. Is it not a fact that the minute a bank is threatened all the business community rushes to increase their discounts and loans and deposits, and that that is what intensifies the panics so much, plus the drawing out of deposits?

Mr. FAIRCHILD. You mean it tends to borrowing of more money?

The CHAIRMAN. Yes. They want to increase their loans and discounts.

Mr. FAIRCHILD. Yes; they do that.

The CHAIRMAN. Banks then say: "We can not increase your loans, but we will take care of you;" and saying that all over the country checks the panic. That is true, is it not?

Mr. FAIRCHILD. Yes.

CURRENCY NOT ISSUED AGAINST DEPOSITS.

Mr. BROSIUS. Do you think it desirable, and if so, on what principle, to issue currency against deposits? * * * Your bill provides for issuing currency against the assets of the banks. Of course, you understand that the deposits are a part of the assets.

Mr. FAIRCHILD. Oh.

Mr. FOWLER. The deposits are not assets.

Mr. BROSIUS. Yes, they are.

Mr. FOWLER. They are liabilities.

Mr. BROSIUS. Take all your deposits. Your currency is the first lien upon all the assets of the banks.

Mr. FAIRCHILD. You mean the reverse. The deposits are a liability. The deposits are a lien upon the assets.

Mr. BROSIUS. I do not care about the use of technical words. The point is that when you issue the currency against the assets of a bank and make those notes the first lien upon the assets, that act covers the deposits and the depositor loses his money just in proportion as his money is taken to make good the notes. Do you think it desirable, on general principles, to issue currency against assets and make that currency the first lien upon the depositor's money in the vaults of that bank?

Mr. FAIRCHILD. I do.

Mr. BROSIUS. Upon what principle can you justify it?

Mr. FAIRCHILD. A depositor need not put his money there unless he wants to. He knows what the arrangement of the bank is. That is true to-day.

Mr. BROSIUS. You say that is exactly what you do to-day?

Mr. FAIRCHILD. Yes.

DEPOSITORS FREELY TAKE THE RISK.

Mr. BROSIUS. So in any event the loss falls upon the depositors?

Mr. FAIRCHILD. It always does.

Mr. BROSIUS. Is it not fair to assume that in cases of fraud such as you suggest, where the capital of a bank is simply gobbled up, if they had not deposited a certain amount of capital in place of the bonds, they would have stolen that also? And is it not a clear question of saving whatever amount of bonds they deposit?

RASCALS STEAL THE WHOLE BUSINESS.

Mr. FAIRCHILD. They would have stolen that also.

Mr. BROSIUS. They can not steal bonds, you know.

Mr. FAIRCHILD. They have stolen the whole business in the same way. The net result in dollars and cents to the stockholders of that bank is the same. Of course when they have invested in common bonds they have their notes banked, because they have run away, and have done the same thing with the deposits. The notes stand there to get the United States bonds, but the capital and the stock and everything is gone.

Mr. BROSIUS. No; but the bonds are not gone, Mr. Fairchild, and therefore the note-holder is made whole.

Mr. FAIRCHILD. That I admit—that the note-holder is made whole; but every dollar that was put into that bank is gone.

Mr. BROSIUS. I do not see it in that way, because the bonds were paid for by a part of the capital, and that portion could not be gotten away.

Mr. FAIRCHILD. The only thing that remains at present is the difference between the premium on bonds and the amount of notes that they got.

Mr. BROSIUS. Whatever remains goes to the note-holders to pay the notes?

Mr. FAIRCHILD. Yes.

Mr. BROSIUS. The point that I make is that if a portion of that capital had not been invested in the bonds the whole thing would have been stolen, and neither note-holder nor depositor would have gotten anything.

NOTE-HOLDER SECURE.

Mr. FAIRCHILD. As far as the note-holder is concerned, we have provided for taking care of him as securely as he is taken care of now.

CANCELING SILVER CERTIFICATES—POPULAR USE OF COIN MONEY.

Mr. FOWLER. If the certificates—the ones, twos, and fives—were all canceled, and the silver was out at the end of a year, do you not think the people would be as well satisfied as they are now with the certificates? With California before you as an illustration, with Mr. Garnett, who lives there, refusing to sign the report recommending this bill, because he uses silver, and with the practices of Germany and France and other countries before you, do you not think that at the end of a year the people would be just as well satisfied with the silver as they would be now with the small certificates?

Mr. TAYLOR. I do not think so. They would take it if they had to.

Mr. MCCLEARY. Would not that fact—the presence of the gold and silver in the hands of the people from day to day—be the best kind of an education in the other direction that you spoke of a while ago? Would it not be the best kind of an education as to what money really is?

Mr. TAYLOR. Well, it would be a good object lesson, but I do not think I am prepared to say it would be the best one.

The CHAIRMAN. Would not that be the only way to find out what the people want and to get their opinion of any currency system?

Mr. TAYLOR. Yes, sir.

The CHAIRMAN. Do you know of any other Government in the world that coins money and then itself issues paper representatives of it direct?

Mr. TAYLOR. I do not know that I ever heard of one.

The CHAIRMAN. Does not that contradict the whole theory of coinage?

Mr. TAYLOR. I think it does. I think it is an inconsistency in our system.

* * * * *

The CHAIRMAN. Is it not a fact that a very large body of our people, children especially, who handle a large part of the money in taking it to stores, and the very large laboring population of the South, and the ordinary laboring men, can carry coin in their pockets with greater safety and less liability of loss than they can carry paper, and is it not also true that the paper often gets wet and crumples up and the germs of disease get in it, and everything of that kind? So, would it not be of great sanitary benefit and economic benefit in every way in protecting the people from loss to have all money, say under \$5, in coin?

Mr. TAYLOR. There is great force in that, Mr. Chairman, and I think our people would be better off if that could be brought about. I think they would be better off if they used more coin money. I may be telling tales out of school, but I will say that when this was under discussion in the commission I made a motion that the smallest paper bill should be \$3 as a compromise. I think the people would stand that, without much complaint. I believe if you would go to \$5 there would

be a great deal of complaint, but that if you say \$3 the people would not seriously complain, and perhaps in that way you could accustom them to the use of coin, and eventually they would allow \$5 to be the lowest denomination of paper money.

Mr. NEWLANDS. Do you not think that in this country there are a great many people who do not know that the silver is still in circulation through the silver certificates?

Mr. TAYLOR. I can not say that I have found any such people among my acquaintances.

Mr. NEWLANDS. I have met with a great many myself, and abroad I found that that was quite a general impression, that we had a great stock of silver here and that it was not utilized.

Mr. TAYLOR. That might be so. I can not say.

The CHAIRMAN. Whether that is so or not, not one man in a thousand, when he receives a bill, stops to see whether it is a bank note or a silver certificate, or what it is. Unless his attention is especially called to it, he does not notice it. There is no distinction; he thinks that it is all national-bank money.

Mr. TAYLOR. Very few people notice the difference, or think of the difference.

The CHAIRMAN. And they do not know that this coin is collateral for these silver certificates?

Mr. TAYLOR. Very few people think of that. That is one of the consequences of the greenback circulation. It has accustomed the people to take pieces of paper with pictures on them. That is all they notice.

The CHAIRMAN. Is it, then, your opinion that the general feeling of affection which the people seem to have for the greenbacks is because they want the paper money?

Mr. TAYLOR. No; not that merely; not because they want paper money merely. I think the affection of the people for the greenbacks is a peculiar patriotic instinct. The greenback is associated in their minds with the preservation of the Union.

The CHAIRMAN. And you think the majority of the people in the ordinary way of life draw the distinction between the greenback and the bank note, and so on?

Mr. TAYLOR. Not at all.

The CHAIRMAN. That is what I meant.

Mr. TAYLOR. No; not at all. In actual transactions I think men very rarely take notice of what kind of money they are handling.

BANKING IN AGRICULTURAL COMMUNITIES.

Mr. HILL. What is the purpose of section 12, providing for small banks?

Secretary GAGE. More particularly for agricultural communities. There is always a small business center somewhere in every sort of community.

Mr. HILL. Generally speaking, you now refer to agricultural communities, in which there would largely be agricultural loans?

Secretary GAGE. Very largely.

Mr. HILL. Do you believe it is possible for a national bank or any bank to be made a bank of issue with the facilities for prompt redemption which you have provided here, making agricultural loans against notes issued on demand?

Secretary GAGE. I think agricultural loans, properly made, are among the best loans in the world.

Mr. HILL. I know it, but can they be made as against demand issues of bank notes?

Secretary GAGE. They can, within reasonable range; yes, sir.

Mr. HILL. How is it possible for a bank, say, of \$25,000, situated in an agricultural community, to exchange its circulating notes for long-time agricultural notes and maintain redemption of its own notes?

Secretary GAGE. By "long-time agricultural notes" do you mean four or five year loans?

Mr. HILL. I mean six months, as against their own notes outstanding.

Secretary GAGE. I think they could.

Mr. HILL. In what way would they be able to do it?

Secretary GAGE. Because the community we are supposing is a community where the circulating capital is small, and as long as crops were in process of being gathered and brought to market, and the expenses connected with them being paid off, there would be a local use for any circulating medium which this bank would supply, and it would stay there until crops (which ought to be more or less varied in every community, and are more or less varied), would begin to go forward to market; and that generally happens four or five months before the following crop is sown and the expense incidental to raising that crop inaugurated. When the crop goes to market the fund would be found to redeem the notes. The notes would find their way to the redemption centers if the community owed more than the crops paid. Then the notes, like any other form of money, would go forward to settle the difference, and they would be redeemed. * * * It is now an impoverishment of a community to start a national bank. Take a little community that can scarcely raise \$50,000 capital. What does the Government require of it? It requires, in the first place, \$25,000 of that to be sent to Wall street to buy bonds, and then it may, and as it may it must, because it is too poor not to do it, put these bonds up with the Treasurer of the United States, and for the \$25,000 of bonds, which have cost over \$30,000, it may get \$22,500 of its own notes—not Government notes, but its own notes—which it may have the privilege of loaning to the community. That is an impoverishment to the community, substantially, of 30 per cent on capital it had before it started the bank.

LARGE BANKS "CARRY" SMALL BANKS.

Mr. HILL. Do you think, in your experience as a banker, not as Secretary of the Treasury, that as a matter of fact the large reserve banks of the country do frequently have to carry the smaller banks?

Secretary GAGE. They do to a considerable extent.

Mr. HILL. Do you think, then, they would object to this credit-note system, as giving to the country banks a first lien upon all their assets for these reserve notes and thus imperiling their claims against the country banks?

Secretary GAGE. I do not think they would object on that ground at all, because they always make sure they themselves have a good lien on assets before they take care of the country banks.

BANKS PROTECT THEIR CUSTOMERS.

The CHAIRMAN. Is it not a fact that the minute a bank is threatened all the business community rush to increase their discounts and loans and deposits, and that that is what intensifies the panics so much, plus the drawing out of deposits?

Mr. FAIRCHILD. You mean it tends to borrowing of more money?

The CHAIRMAN. Yes; they want to increase their loans and discounts.

Mr. FAIRCHILD. Yes; they do that.

The CHAIRMAN. Banks then say, "We can not increase your loans, but we will take care of you;" and saying that all over the country checks the panic. That is true, is it not?

Mr. FAIRCHILD. Yes.

BONDS KEPT UP IN PRICE.

Mr. FAIRCHILD. In getting up this plan the policy we pursued in the commission—

The CHAIRMAN. That is exactly what I want to get at.

Mr. FAIRCHILD (continuing). Was to propose something which we thought would be complete and useful and workable, if adopted by Congress. We considered two lines. First, whether we should attempt to frame something which we thought would meet the views of any particular Congress, looking to the make-up and the general views of Congress. And the other consideration was whether we should proceed solely without reference to that, but to get something that we believed would be beneficial if enacted, leaving out of view entirely the probabilities of its enactment. We concluded to adopt the latter course, believing it was not our province to take into consideration the temper and disposition of Congress, so we have proceeded not on the question of policy of passing a bill, but on the question of the general policy if a bill were passed.

Mr. WALKER. The changes proposed in any bill would be agreeable should it involve no practices or conditions that had not proven to be wise in the actual practice of banking, and correct those practices found to be unwise?

Mr. FAIRCHILD. Certainly; * * * any one of these measures, or all of them combined, which will accomplish the general result is perfectly satisfactory to that commission. * * *

Mr. SPALDING. In the event of the success of the monetary commission's plan, would it have any effect on the price of the bonds of the United States Government, in your opinion; and if so, why?

Mr. FAIRCHILD. We tried to graduate that. Getting at the amount held, and looking at the way bonds were held among the banks, we fixed the amount of 25 per cent of the capital in that way, with a view of having it have as little effect as possible on the rise or fall of bonds.

Mr. SPALDING. What effect, in your opinion, would there be in the adoption or the passing of a law in which the bonds were not used as a security for the circulating medium at all?

Mr. FAIRCHILD. Oh, it might affect their price a little. I doubt if it would affect it much now; perhaps 1, 2, or 3 per cent. I do not know about that.

Mr. WALKER. Your bill is of such a nature that you claim it would not very materially affect the price of bonds. If it had any tendency, it would make them higher, would it not?

Mr. FAIRCHILD. Possibly a little; but looking at the distribution of the bonds, we fixed the amount first at 30 per cent, and then reduced it to 25 per cent on that ground.

Mr. WALKER. Then the requirement to purchase bonds in order to get currency has a tendency to make bonds higher priced?

Mr. FAIRCHILD. That would be the tendency.

INTERINDEBTEDNESS OF THE UNITED STATES.

Mr. WALKER. I will now ask a question on a different line. It is assumed that banks are not a help to the people because they increase their indebtedness; that is to say, we hear the proposition stated on the floor of the House and other places that indebtedness is an indication of poverty. I want you to look at this table [handing him a table]. I have taken great pains by correspondence and otherwise, and by my own estimates and estimates which I have obtained from others, and by the authorities given, to state the total sum of indebtedness.

Table showing the indebtedness of the United States in 1892, prepared by Hon. J. H. Walker, chairman of Committee on Banking and Currency.

Census of 1890, assessed valuation: Assets of the country, real and personal property	\$25,000,000,000
Secretary of Treasury:	
Gold and silver coin	1,200,000,000
Total	26,200,000,000
National debt less cash in Treasury	852,000,000
Census of 1890:	
State debt less sinking fund	223,000,000
County debt less sinking fund	142,000,000
Town and city debt less sinking fund	470,000,000
Porter: School-district debt	38,000,000
Poor's Manual, railroad indebtedness:	
Funded debt	5,106,000,000
Unfunded debt	376,000,000
Current debt	271,000,000
New York Financial Review, 1890: Miscellaneous stocks and bonds	582,000,000
Farm mortgages	1,086,000,000
Home mortgages	1,047,000,000
Other town and city property mortgages	3,887,000,000
Estimated debts of merchants	5,000,000,000
Debts of individuals and families	400,000,000
Comptroller of the Currency:	
Deposits in mutual savings banks	1,402,000,000
Deposits in stock savings banks	252,000,000
Deposits in private savings banks	95,000,000
Deposits in loan and trust companies	353,000,000
National banks	1,588,000,000
State banks	557,000,000
New York Daily Commercial Bulletin:	
Annual fire-insurance losses, \$125,000,000; life of policy, three years	375,000,000
Marine insurance	50,000,000
Life insurance in force	3,543,000,000
Industrial business insurance	313,000,000
Benevolent associations and fraternal orders	6,000,000,000
Interindebtedness in the country	34,208,000,000

INTERINDEBTEDNESS AN EVIDENCE OF INTEGRITY AND WEALTH.

Mr. WALKER. Is it not generally held by economists, Mr. Fairchild, that the interindebtedness of a people, at a low rate of interest, instead of being an evidence of poverty or of hard conditions, is one of the most certain indications known of the average integrity, education, wisdom, and wealth of its people?

Mr. FAIRCHILD. It is.

Mr. WALKER. As the integrity, education, wealth, and peaceful conditions are measured, the use of paper money proportionately increases, and that of coin decreases. Is not that true?

Mr. FAIRCHILD. Well, I would not like to say that quite so broadly. The use of paper is another advance in more perfect civilization and the economy of capital, in my judgment, and the greater the faith of people one in another, the higher the civilization will be; and all these conditions you have spoken of tend to produce that faith.

Mr. WALKER. Except for our war of disunion, we have had peace practically since the war of 1812—and that was not much of a war—while in France the Government has been constantly overturned, and a feeling of unrest has existed there; and England is in a state of war. They are engaging in some kind of a war nearly all the time, and you know what the conditions have been in Germany; while in Scotland, Canada, and this country there has been comparative peace. My question involves the fact of the people's condition. In view of all the facts, do not the paper money and assured peace go together?

Mr. FAIRCHILD. I should think they did.

Transition from present system to the Hill-Fowler system and the Walker system.

If all the national banks in the United States should transfer into the system provided for in the Hill-Fowler bill (H. R. 10289) or into the system provided for in the Walker bill (H. R. 10333), the results as to circulation would be as follows:

HILL-FOWLER BILL.

(a) Cities of 10,000 population and over (25 per cent of paid-in capital, \$451,147,525).....	\$112, 786, 881
(b) Places under 10,000 population (25 per cent of paid-in capital, \$180,340,570).....	45, 085, 142
Total national reserve notes that would be issued.	157, 872, 023

WALKER BILL.

In national banks alone:

(c) Cities of 10,000 population and over (12½ per cent of true capital—capital, surplus, and undivided profits—\$712,955,136).....	89, 119, 392
(d) Places under 10,000 population (12½ per cent of the capital, \$253,284,959).....	31, 660, 620
Total "greenbacks" that would be exchanged	120, 780, 012
All State banks required to assume United States notes.	47, 290, 873
Total United States notes exchanged.....	168, 070, 885

Under the Hill-Fowler bill banks are required to buy and pay United States legal notes for purely a bank note to the amount of 25 per cent of their paid-in capital, and they get no right whatever to issue any notes other than those they buy.	
Amount as above	\$157, 872, 023
Under the Walker bill national banks and commercial State banks are required to exchange lawful money for a new issue of "greenbacks," with their own note printed on the back of them, to the amount of 12½ per cent of their actual capital—total.	
	168, 070, 885
And can issue currency against their assets to an equal amount.	168, 070, 885
Total currency under Walker bill.....	<hr/> 336, 141, 770

Percentage to capital, surplus, and undivided profits of—

	In central reserve cities.	In other reserve cities.	In cities of 10,000 popula- tion and over, not including reserve cities.	In places un- der 10,000 pop- ulation.	Total banks outside reserve cities.	Total esti- mated def- iciency of banks.
1. Individual deposits *	289.89	202.66	162.45	162.45	162.3	38.09
2. Cash reserve required	107.08	31.08	.....	.....	9.4	2.28
3. Bonds required under the Hill-Fowler bill	2.4	5.5	.....	.....	14.4	25
4. United States notes to be paid in under the Hill-Fowler bill	12.8	16.5	16.7	17.8	17.1	25
5. United States notes assumed under the Walker bill	12.5	12.5	12.5	12.5	12.5	12.5
6. Percentage of national reserve notes required to the percentage of cash reserve required under Hill-Fowler bill	11.95	53.0	.....	.....	182.6	1,096.4

* Does not include deposits of banks in other banks.

\$100,000-capital banks.

Profit on currency under various bills.	On the 80 per cent of currency in circulation, 6 per cent.	Depletion of capi- tal in taking out the currency.
McCleary bill (H. R. 9725)	1. 349	\$28, 389. 00
Hill-Fowler bill (H. R. 10289)	1. 186	45, 422. 20
Under the commission bill (No. 5855)	1. 775	26, 333. 89
Under the Gage bill (No. 5181)	0. 504	80, 000. 00
Under the Fowler bill (No. 50)	1. 738	100, 000. 00
Under the Walker bill (No. 3333)	5. 153	.....
Under the existing law	Loss—0. 642	100, 000. 00

HILL-FOWLER BILL (H. R. 10289.)

Profit on national-bank note circulation to banks with \$100,000 capital.

Locality.	Class of bonds.	Cost of bonds, United States 4's of 1907, January 1, 1908, at 112.5635 (2 1/4 per cent investment).	Maxi. num cir- culation.	Loanable funds.	Receipts.			Expenditures.				Interest on \$100,000 capital.	Profit on cir- culation.	
					Interest on total loan- able funds, less \$20,000 idle, \$5,000 redemption fund, \$5,000 guaranty fund.	Inter- est on bonds.	Gross receipts.	Tax, 2 per cent on one-fourth of 1 per cent on capital.	Ex. penses.	Sinking fund to liquidate premium paid on bonds.	Total.		Amount.	Per cent.
4 per cent	4's of 1907	\$45,422.20	\$100,000	\$154,877.80	\$4,968.11	\$1,600	\$6,568.11	\$1,450	\$62.50	\$416	\$1,928.50	\$4,000	\$654.61	0.655
6 per cent	4's of 1907	45,422.20	100,000	154,877.80	7,474.67	1,600	9,074.67	1,450	62.50	876	1,888.50	8,000	1,186.17	1.186
8 per cent	4's of 1907	45,422.20	100,000	154,877.80	9,966.23	1,600	11,566.23	1,450	62.50	331	1,843.50	8,000	1,722.72	1.723
10 per cent	4's of 1907	45,422.20	100,000	154,877.80	12,457.78	1,600	14,057.78	1,450	62.50	280	1,792.50	10,000	2,265.28	2.265

Table made at request of Mr. Walker, based upon details furnished by him (H. R. 10289).

MAY 20, 1898.

Jos. S. McCoy, Government Actuary.

MCCLEARY BILL (H. R. 9725).

Profit on national-bank note circulation to banks with \$100,000 capital.

Locality.	Class of bonds.	Cost of bonds, United States 4's of 1907, January 1, 1898, at 112 55 55 (2 1/2 per cent interest).	Maxi- mum cir- culation.	Loanable funds.	Receipts.			Expenditures.				Interest on \$100,000 capital.	Profit on circula- tion.	
					Interest on total loan- able funds, less \$20,000 idle, \$5,000 redemption fund, \$5,000 guaranty fund.	Inter- est on bonds.	Gross receipts.	Tax, 2 per cent on \$20,000, 6 per cent on \$20,000, one-fourth of 1 per cent tax on capital.	Ex- pense, paid on bonds.	Sinking fund to liquidate premium on bonds.	Total.	Net re- ceipts.	Amount.	Per cent.
4 per cent	4's of 1907	\$23,389	\$100,000	\$171,611	\$5,924.44	\$1,000	\$6,924.44	\$1,850	\$32.50	\$250	\$3,172.50	\$4,491.94	\$491.94	0.492
6 per cent	4's of 1907	23,389	100,000	171,611	5,493.66	1,000	6,493.66	1,850	32.50	235	2,147.50	7,343.16	1,349.16	1.349
8 per cent	4's of 1907	23,389	100,000	171,611	11,323.88	1,000	12,323.88	1,850	32.50	207	2,119.50	10,209.38	2,209.38	2.209
10 per cent	4's of 1907	23,389	100,000	171,611	14,161.10	1,000	15,161.10	1,850	32.50	175	2,087.50	13,073.60	2,973.60	2.974

Above please find computations made in accordance with your instructions.

J. S. McCoy, Government Actuary.

MARCH 25, 1898.

Figures of banking funds, copied from the Comptroller's report for 1897, and estimates of probable increase.

[Report of Comptroller of Currency, 1897, Vol. I, pp. 385, 397, 444, 559.]

	Capital.	Capital, surplus, and profits.	Deposits.
National banks	\$631, 438, 095	\$966, 240, 096	\$1, 853, 349, 128
State banks	228, 677, 088	331, 036, 112	723, 640, 795
Add 12½ per cent of State banks failing to report.	a 32, 668, 155	a 47, 290, 873	a 103, 377, 257
Total.....	892, 833, 338	1, 344, 567, 081	2, 680, 367, 180
Probable increase (25 per cent).....	223, 208, 334	366, 141, 770	670, 091, 795
Total.....	1, 116, 041, 672	1, 680, 708, 851	3, 350, 458, 975

	Cash reserve required.	Cash reserve held.	Total reserve required.	Total reserve held.
National banks	\$287, 741, 796	\$388, 882, 631	\$452, 538, 033	\$695, 922, 126
State banks	a 112, 480, 000	152, 000, 000	a 176, 928, 000	a 268, 128, 000
Add 12½ per cent of State banks failing to report.	a 17, 060, 000	a 19, 000, 000	a 22, 116, 000	a 33, 516, 000
Total.....	417, 281, 796	559, 882, 631	651, 582, 033	997, 566, 126
Probable increase (25 per cent).....	a 104, 320, 449	a 139, 970, 658	a 162, 895, 508	a 249, 391, 531
Total.....	521, 602, 245	699, 853, 289	814, 477, 541	1, 246, 957, 657

a Estimated.

The items as to "reserves" being given for all the national banks in the United States, and using that of "cash reserve held" as a base for calculation of percentages, it is assumed that the ratio of difference for like items as to State banks not given in the official report bear proportionately the same relation to each other as for the national banks.

Table showing loss of banking funds in nine States under existing conditions in 1897 as compared with 1860.

TABLE A.—NINE STATES IN WHICH BANKING WAS FAIRLY WELL DEVELOPED IN 1860.

States.	1897 per capita.			1860 per capita.				Differ- ence in 1897.	Population, 1897.	Loss in amount of banking funds in 1897 at the per capita of 1860.
	Capital.	Deposits.	Currency.	Total.	Capital.	Deposits.	Currency.	Total.		
Alabama.....	\$2.00	\$3.65	\$0.63	\$6.28	\$5.08	\$5.03	\$7.75	\$17.86	1,675,000	\$18,396,500
Georgia.....	1.56	3.21	.43	5.20	15.78	4.48	8.32	28.58	2,090,000	48,864,200
Kentucky.....	4.63	6.54	1.72	12.89	11.10	4.90	11.70	27.70	1,887,000	27,946,470
Louisiana.....	.87	1.93	.24	3.04	34.60	27.93	16.35	78.88	992,000	75,233,280
Missouri.....	1.55	3.26	.42	5.23	7.68	2.84	6.67	17.19	2,427,000	29,026,920
North Carolina	1.52	3.00	.36	4.88	6.67	1.50	5.64	13.81	1,780,000	15,895,400
South Carolina	1.48	2.73	.35	4.56	21.26	5.92	16.31	43.49	1,280,000	49,830,400
Tennessee....	4.55	8.95	.80	14.30	7.27	3.89	4.99	16.15	1,924,000	3,559,400
Virginia.....	2.63	8.68	1.12	12.43	10.02	4.84	6.14	21.00	1,768,000	15,191,760
Total.....									15,823,000	283,944,330

Average loss in banking funds, per capita, in 1897 over 1860..... \$17.94+

TABLE B.

Assuming that the use of banking funds in 1897, that is to say, capital, deposits, and currency, would be one-quarter more in volume than in 1860, the slaves being free, the following sums should be added for each State named:

State.	Amount.	State.	Amount.
Alabama	\$7, 478, 875	South Carolina	\$13, 916, 160
Georgia	14, 933, 050	Tennessee	7, 767, 188
Kentucky	13, 067, 475	Virginia	9, 282, 000
Louisiana	4, 054, 304		
Missouri	10, 348, 819	Total	86, 992, 431
North Carolina	6, 144, 560		

TABLE C.

Assuming that the slaves being free to-day would add one-quarter to the use of banking funds, the amount of such funds that would be in use in the following nine States, providing that the freedom of issuing currency enjoyed by State banks in 1860 had continued until to-day, would probably be as follows:

State.	Population in 1897.	Actual loss in amount of banking funds in 1897, at the per capita of 1860.	Natural increase, with slaves free, should show one-quarter more.	Total.
Alabama	1, 675, 000	\$18, 396, 500	\$7, 478, 875	\$25, 872, 375
Georgia	2, 090, 000	48, 864, 200	14, 933, 050	63, 797, 250
Kentucky	1, 887, 000	27, 946, 470	13, 067, 475	41, 013, 945
Louisiana	992, 000	75, 233, 280	4, 054, 303	79, 287, 584
Missouri	2, 427, 000	29, 026, 920	10, 348, 819	39, 375, 739
North Carolina ..	1, 780, 000	15, 895, 400	6, 144, 560	22, 039, 960
South Carolina ..	1, 280, 000	49, 830, 400	13, 916, 160	63, 746, 560
Tennessee	1, 924, 000	3, 559, 400	7, 767, 188	11, 326, 588
Virginia	1, 768, 000	15, 191, 760	9, 282, 000	24, 473, 760
Total	15, 823, 000	283, 944, 330	86, 992, 431	370, 933, 761

TABLE D.—ESTIMATED DEFICIENCY OF BANKING FUNDS IN THE FOLLOWING STATES IN 1897 AS COMPARED WITH 1890.

[Capital and deposits of State banks—see Comp. Currency, 1897, vol 1, p. 578.]

States.	Estimated capital.	Capital of State banks.	Estimated deposits.	Deposits of State banks.	Estimated currency.
Alabama.....	\$10,866,397	\$1,022,360	\$4,139,580	\$951,609	\$10,866,397
Georgia.....	26,844,845	5,150,612	10,107,560	6,389,932	26,844,845
Kentucky.....	17,225,857	22,402,014	6,562,231	25,008,521	17,225,857
Louisiana.....	33,300,785	703,336	12,686,013	994,149	33,300,785
Missouri.....	16,537,810	15,452,036	6,300,918	81,833,369	16,537,810
North Carolina.....	9,256,783	2,541,532	3,526,393	3,412,841	9,256,783
South Carolina.....	26,773,555	1,166,995	10,199,449	1,251,674	26,773,555
Tennessee.....	4,757,167	3,107,490	1,812,254	5,211,765	4,757,167
Virginia.....	10,278,979	8,379,832	3,915,801	15,078,803	10,278,979
Total.....	155,842,178	60,926,357	59,250,199	90,132,663	155,842,178

SUMMARY.

Estimated capital.....	\$155,842,178
State bank capital.....	60,926,357
Estimated currency.....	\$94,915,821
	155,842,178
State bank deposits.....	250,757,999
Estimated deposits.....	90,132,663
	59,250,199
Estimated net loss of banking funds in the nine States.....	30,882,464
	219,875,535

Fifteen States in which banking was undeveloped in 1860, and in which the deficiency in banking funds per capita was probably as large in 1897 as in the nine States above noted.

States.	Population, 1897.	States.	Population, 1897.
Arkansas.....	1,360,000	Nevada.....	45,000
California.....	1,155,000	South Dakota.....	387,000
Colorado.....	517,000	Texas.....	2,698,000
Florida.....	496,000	Utah.....	272,000
Idaho.....	151,000	Washington.....	468,000
Kansas.....	1,342,000	Wyoming.....	86,000
Mississippi.....	1,444,000		
Montana.....	225,000	Total population..	11,791,000
Nebraska.....	1,145,000		

Estimated deficiency in banking funds in these fifteen

States, as shown to be in the nine States, in 1897 \$211,530,540

Deficiency in nine States above 283,944,330

Total deficiency in 24 States 495,474,870

Number and value of slaves in 1860 (average value estimated at \$500 per head) in the nine States following.

State.	Number of slaves in 1860.	Value at \$500 per head.	Assessed value of personal property in 1860. ¹	Assessed value of personal property in 1890. ²
Alabama.....	435,080	\$217,540,000	\$277,164,673	\$104,273,091
Georgia.....	111,115	55,557,500	438,430,946	190,774,030
Kentucky.....	225,483	112,741,500	250,287,639	170,807,996
Louisiana.....	331,726	165,863,000	155,082,277	74,700,905
Missouri.....	114,931	57,465,500	113,485,274	288,116,597
North Carolina...	331,059	165,529,500	175,931,029	93,231,742
South Carolina...	402,406	201,203,000	359,546,444	78,219,946
Tennessee.....	275,719	137,859,500	162,504,020	89,887,380
Virginia.....	490,865	245,432,500	239,069,108	208,700,236
Total.....	2,718,384	1,359,192,000	2,171,501,410	1,298,711,923

¹ Census 1860, p. 294, Mortality and Miscellaneous Statistics.

² Census 1890, part 2, Wealth, Debt, and Taxation, p. 102.

Personal property per capita in 1860, deducting value of slaves. \$85.78
 Personal property per capita in 1890, slaves free 85.44

Population in 1860, 9,469,634. Population in 1890, 15,199,370.

Total capital, surplus, and undivided profits in places under 10,000 population	\$253, 284, 959
Circulation	70, 427, 647
Deposits	411, 476, 864

Total banking funds	735, 189, 470
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Capital actually paid in	180, 340, 570
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Population in places under 10,000	41, 840, 776
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Deduct people served by banks in cities of 10,000 population or more	10, 390, 737
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31, 450, 039

National banking funds per capita, to serve people living in places of less than 10,000 population, \$23.38.

Total capital surplus and undivided profits in cities of 10,000 population or more	\$712, 955, 136
Circulation	128, 493, 023
Deposits	1, 441, 872, 264

Total national banking funds	2, 283, 320, 423
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Capital actually paid in in cities of 10,000 population or more	451, 147, 525
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Population in cities of 10,000 and over	20, 781, 474
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One-half as many again served by banks in above cities	10, 390, 737
--	--------------

Probable population served by such banks	31, 172, 211
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Banking funds per capita for cities of 10,000 inhabitants or over, \$73.25.

CLEARING HOUSE OF WORCESTER, MASS.

CONSTITUTION.

The banks in the city of Worcester, having associated on March 5, 1861, for the purpose of effecting a more perfect and satisfactory settlement of the daily balances between them, deeming it advisable to adopt a more permanent and formal organization, hereby agree upon the following

ARTICLES OF ASSOCIATION.

SECTION 1. The name of the association shall be the Worcester Clearing House.

SEC. 2. The objects of the association are the effecting, at one place and one time, of the daily exchanges between the several associated banks, and the payment, at the same time and place, of the balances resulting from such exchanges; the promotion of a general uniformity

of action among the banks; and the cultivation of honorable and friendly relations among the members.

SEC. 3. Each bank belonging to the association may be represented by its president and cashier, both of whom shall be entitled to vote, as the members of the association, at all meetings thereof.

SEC. 4. The annual meeting shall be held at the clearing house on the second Monday in October, in each year, when a chairman and secretary shall be chosen, by ballot, who shall hold their offices for one year, and until others are chosen in their stead; and whenever, at any meeting, either of them shall be absent, a chairman or secretary pro tempore shall be chosen.

SEC. 5. At every annual meeting there shall also be chosen, by ballot, a standing committee of three (not more than one member of the committee from any one bank), to be called the clearing house committee, who shall hold their offices for one year, and until others are chosen in their stead, whose duty it shall be to procure suitable accommodations for the clearing; to provide proper books, stationery, and whatever else may be necessary for the convenient transaction of the business; to ascertain and advise the banks as to their duties and liabilities in case of any doubtful construction of the State or United States laws relating to banks and banking; to investigate and report to the association upon any matters affecting the banking interests, and, generally, to supervise the whole business and interests of the association. Any vacancies which may occur in the committee during the year may be filled at any meeting of the association.

SEC. 6. The cashier of the clearing bank shall be the manager of the clearing, and the settling clerks shall be under his direction while at the clearing house. The hour for making the exchanges shall be at 12 o'clock m. Errors in the exchanges and claims arising from the returns of checks or other cause, are to be adjusted directly between the banks which are parties therein and not through the clearing house.

SEC. 7. Each bank belonging to the association shall deposit with the clearing house committee its proportion of a clearing fund. The proportionate deposit of each bank shall be decided by vote of the association. The clearing fund shall be deposited with the clearing bank, free of interest, as a compensation for services rendered, and for the payment of all necessary expenditures of the association. On making its deposit each bank shall receive a certificate therefor, signed by the clearing house committee and countersigned by the manager. No bank shall make the clearings of a bank which is not a member of the association.

SEC. 8. No new bank shall be admitted to the association excepting on the recommendation of the clearing-house committee and by a vote of three-fourths of the members; and no bank shall withdraw without giving six months' notice of such intention to the manager of the clearing house.

SEC. 9. For cause deemed sufficient by the associated banks, at any meeting thereof, any bank may be expelled from the association and debarred from all the privileges of the clearing house by a vote of three-fourths of the members.

SEC. 10. These articles of association shall be signed by the members thereof and by new members hereafter admitted; they may be amended by a vote of two-thirds of the members at any meeting of the association, provided that notice of the proposed amendment shall have been given in writing at a previous meeting and lodged with the secretary.

SEC. 11. The secretary shall notify all meetings by giving notice

in writing to each of the associated banks; and he shall convene the association whenever requested to do so by any member.

NOTE.—Population, 115,000; capital of clearing house, \$10,500; banks of \$250,000 capital or less loan the clearing house \$1,000; those having over \$250,000 capital loan the clearing house \$1,500 free of interest.

H. R. 10339.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES,

MAY 16, 1898.—*Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To so change the national-bank act as to secure to the people in all sections of the country an equal opportunity to freely use paper money.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter banking associations shall not be required, "preliminary to the commencing of the banking business," or in continuance thereof, to "transfer and deliver to the Treasurer of the United States," or as security for circulating notes, any United States bonds; and any national banking association that has transferred and delivered such bonds to the Treasurer may recover such bonds from the Treasurer upon complying with the conditions prescribed for the reassignment of such bonds to associations in liquidation; and the Treasurer of the United States is hereby authorized and directed to reassign and deliver such bonds to the association from which he received them upon being notified by the Comptroller of the Currency that such association is in compliance with this section of this Act.

SEC. 2. That any banking association organized under the laws of any State that shall place on deposit in any banking association in the largest commercial city in the State in which the association is located, or in any other place acceptable to the Comptroller of the Currency, an amount of specie equal to five per centum of its circulating notes that it averages to have in actual circulation for the redemption on demand of such notes, and shall also have in its own vaults, in addition to the amount hereinbefore mentioned, an amount of specie equal to five per centum of its average individual deposits, thereupon the imposition and the collection of the ten per centum tax on the circulating notes of banking associations organized under the laws of any State shall be suspended, so far as they relate to such banking association: *Provided, however,* That in case such banking association fails to keep good, as averaged for any month, any part of the total amount of specie as is herein required it shall be liable to and shall pay into the Treasury of the United States a tax equal to ten per centum per annum on an amount equal to the amount of the average deficit in such fund or funds for such month.

SEC. 3. That whenever any association fails to pay on demand in specie the circulating notes signed by its officers and paid out by it, it shall be subject to and shall pay a duty at the rate of two per centum per annum, one-half on July first and one-half on October first, on a sum equal to the average amount of its circulating notes outstanding and of the individual deposits in such association during such failure

and until such payment is resumed: *Provided, however,* That in case any such association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted.

SEC. 4. That each association shall keep such records and send to the Comptroller of the Currency such reports and submit to such examinations by any agent of the Comptroller, to ascertain whether the association is in compliance with law and the amount of tax due and payable by it, as the Comptroller of the Currency shall from time to time direct, and the expenses of such examination shall be paid by such association.

H. R. 10333.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES.

MAY 13, 1898.—*Mr. Walker, of Massachusetts, introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A BILL To so change the national-bank Act as to secure to the people in all sections of the country an equal opportunity to freely use paper money.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter banking associations shall not be required, "preliminary to the commencing of the banking business," or in continuance thereof, to "transfer and deliver to the Treasurer of the United States," or as security for circulating notes, any United States bonds; and any national banking association that has transferred and delivered such bonds to the Treasurer, upon depositing lawful money, in compliance with section two of this Act, may recover such bonds from the Treasurer upon complying with the conditions prescribed for the reassignment of such bonds to associations in liquidation; and the Treasurer of the United States is hereby authorized and directed to reassign and deliver such bonds to the association from which he received them upon being notified by the Comptroller of the Currency that such association is in compliance with section two of this Act; and in place of United States bonds, as heretofore required, banking associations shall deposit lawful money in amount sufficient to take out the United States legal-tender circulating notes described in section two; and the taking out of such notes is hereby required of such associations preliminary to the commencing of the banking business.

In places of less than four thousand inhabitants, with the permission of the Comptroller of the Currency, banking associations may be organized with a paid-up capital of not less than twenty-five thousand dollars.

The word capital as used in this Act shall be held to mean the sum of the nominal capital plus the surplus and undivided profits of associations, and as shown by the last published annual report of the Comptroller of the Currency when such items concerning the bank in question are published in such report.

SEC. 2. That upon the delivery of coin, coin certificates, or United States legal-tender notes, including Treasury notes, to the Treasurer of the United States in sums of one hundred dollars or any multiple thereof, and in amount equal as near as may be to twelve and one-half

per centum of its capital, thereupon it shall be entitled to receive from the Comptroller of the Currency United States legal-tender notes of different denominations, having printed on their reverse side the circulating note of the association, in blank, registered and countersigned as provided by law, equal in amount to the coin, coin certificates, and United States legal-tender notes, including Treasury notes, delivered; and any association may at any time increase such delivery of such moneys to an amount equal to one-half of its capital, and receive such circulating notes thereon to the amount of such delivery of such money.

The promise of the association receiving and issuing such notes to pay the same on demand shall be attested by the signature of the president or vice-president and cashier or assistant cashier before being issued by it.

The Secretary of the Treasury is hereby authorized to issue United States legal-tender notes of the Act of March third, eighteen hundred and sixty-three, to the amount necessary to carry into effect the provisions of this Act.

The lawful name and description of the notes issued under this section shall be greenbacks.

SEC. 3. That the Comptroller of the Currency shall issue, in blank, circulating notes of different denominations, to any association, and the association may issue the same in addition to the greenbacks described in the preceding section equal in amount to the amount of the greenbacks taken out by it until the setting aside of the gold in the Treasury of the United States to redeem certain legal-tender notes as described in the section next succeeding. Thereafter he shall issue to any association, and the association may retain and issue, the notes described in this section at his discretion, but not less in amount than the amount of the greenbacks taken out by such association, and not less in amount than twenty-five per centum in excess of the amount upon which a tax was assessed and paid in the two years next preceding, and not to exceed in amount the amount of its unimpaired capital. Each association taking out the notes described in this section shall add to its current redemption fund and keep therein a sum in lawful money equal in amount to five per centum of such notes it averages to keep in circulation as found from time to time; such five per centum, together with the five per centum mentioned in the next section, shall be held for the redemption of its greenbacks and notes issued to it under this section.

That the lawful name and description of notes issued under this section shall be currency.* All currency shall have printed on its reverse

* Net assets of national and State banks, in capital, surplus, and undivided profits..... \$1,350,000,000
All kinds of paper money in circulation..... 1,095,377,992

Profits to bank on currency under existing law and conditions, about one-fourth of 1 per cent.

As all taxes except one-fifth of 1 per cent, safety fund tax, are removed, the average profit, taking the country over, under this bill, on the currency kept out, would be about 6 per cent. Nothing is gained on the greenbacks and 6 per cent on the reserve notes.

The currency issued is not "reserve certificates." It is in no sense "issued against the reserve held." They hold exactly the same relation to the "reserve held" as any other liability of the banks. For each \$95 of old issue of greenbacks that are redeemed and destroyed, \$100 of new greenbacks are issued and \$100 of currency, making \$200 of currency for each \$95 retired.

side the statement that it is to be finally redeemed and paid by the Treasurer of the United States. The Comptroller of the Currency may cause a supply of currency and of greenbacks to be printed for associations in anticipation of immediate delivery to them.

SEC. 4. That the Treasurer of the United States shall forthwith redeem and destroy existing United States legal-tender notes issued under Acts passed before July first, eighteen hundred and ninety, and put in circulation previous to the passage of this Act, in such manner as he may deem proper, equal in amount to ninety-five per centum of the aggregate of the coin, coin certificates, and United States legal-tender notes, including Treasury notes, received for greenbacks issued to banking associations; and the Treasurer shall set aside five per centum of such aggregate, which, together with the five per centum mentioned in the previous section, shall be held for the current redemption of the greenbacks and currency of the association making such deposit.

When there shall be no more in amount of United States legal-tender notes outstanding issued before July first, eighteen hundred and ninety, than the amount of the gold then held by the Treasurer that may be used for the redemption of such notes, the gold so held shall then be set aside by the Treasurer of the United States and used only to redeem such notes, which notes upon being so redeemed shall be destroyed;* and from and after thirty days from the setting aside of gold herein mentioned such notes shall not be used by any banking association in redeeming its notes, or be counted in the reserve fund of any national banking association, or be a legal tender for any debt due and payable in the United States excepting for duties due and payable on goods imported into the United States.†

That upon the setting aside of the gold herein directed, a sum of money equal in amount to all moneys subsequently paid into the Treasury of the United States in exchange for greenbacks shall be held in the Treasury as a separate fund, out of which the Treasurer shall, from time to time, redeem greenbacks held by certain associations in amount and manner as follows, to wit:

When such funds shall amount to one per centum of the total amount of greenbacks taken out under this Act by associations before the set-

*Outstanding United States legal-tender notes	\$346, 000, 000
Gold redemption fund in Treasury in February, 1896...	146, 000, 000

Total legal-tender notes to be assumed by banks ..	200,000,000
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to relieve the situation. Thus, when the banks have assumed the current redemption of only \$200,000,000 of legal-tender notes, the Treasury will be wholly relieved from paying gold on any form of paper money, and it will be a matter of as much indifference what the Government pays out as in the case of any private citizen.

Visible gold on January 1, 1899:

In United States Treasury	\$246, 973, 000
In national banks	266, 464, 000
In State banks, trust companies, etc. (estimated)	266, 000, 000

Total commercial gold	779, 437, 000
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†This provision is designed to bring legal-tender notes into the Treasury for redemption.

ting aside of gold and then held by them, or oftener, he shall call in, redeem, and cancel such greenbacks so held that are in excess of the total amount of such notes issued to banking associations and held by them, previous to the setting aside of gold, and in amounts of one hundred dollars or any multiple thereof. He shall first reduce the amount of such greenbacks to those associations which hold the largest amount of greenbacks in proportion to their capital, if requested by them so to do, and until the holdings of such greenbacks by all associations have been reduced to the sum required to be taken out by them; and he may require any association to increase its holdings of greenbacks in sums of one hundred dollars or any multiple thereof when the increase of its capital makes its holdings of greenbacks less in percentage than is required by this Act. Thereafter the taking out and the holdings of greenbacks by any association shall be reduced so as to keep the total amount of greenbacks held by the aggregate of all associations as near as may be at the aggregate amount of greenbacks so held by all associations at the time of the setting aside of gold herein mentioned.

Two years from the day of the setting aside of the gold in the Treasury to redeem certain legal-tender notes any gold so set aside then remaining shall be free money in the Treasury.

SEC. 5. That upon the expiration of the corporate term of any association, if its corporate existence is not extended by the Comptroller of the Currency, or upon the insolvency of an association, or by the order or with the consent of the Comptroller, approved by the Secretary of the Treasury, the Treasurer shall redeem the greenbacks issued to the association, out of any moneys in the Treasury not otherwise appropriated.

Any association may reduce its currency by surrendering it for destruction to the Comptroller of the Currency, who shall destroy the currency so surrendered in the manner prescribed by law. The liability of any association for its currency shall neither be canceled nor reduced in any other manner.

SEC. 6. That each association shall keep good with the Treasurer of the United States and he shall at all times keep and have on deposit in the Treasury of the United States, in lawful money, except as hereinafter provided, for the current redemption fund of each association during its solvency, a sum equal to the five per centum before mentioned of the greenbacks and average outstanding currency of the association, to be held and used for the current redemption of its greenbacks and currency; and no part of such redemption fund shall be counted as a part of the reserve of any bank; and when the notes of any association, assorted or unassorted, shall be presented for such redemption to the Treasurer of the United States, in sums of five hundred dollars, or any multiple thereof, or in sums equaling not less than one per centum of the total circulation of any association having less than fifty thousand dollars in greenbacks and currency, the same shall be redeemed.

Each association shall redeem in lawful money its greenbacks and currency at its own banking house and at an agency approved by the Comptroller in some reserve city.

The right to confer the duties and responsibilities of executing the provisions of this Act, or any part thereof, relating to the current redemption fund or the redemption of greenbacks and currency upon any reserve bank or other suitable agent, under such regulations as he may deem safe and proper, and to deposit any part of the current redemption fund or funds in any place he may deem proper, with the approval of the Secretary of the Treasury, is hereby conferred upon the Treasurer of the United States.

SEC. 7. That from and after thirty days from the setting aside of gold by the Treasurer of the United States to redeem and cancel certain legal-tender notes as aforesaid the cash reserve required by law to be kept by banking associations shall be kept as near as may be in equal parts in greenbacks of other associations in silver coin and in gold coin of the United States.

Each banking association may keep its coin and its bonds in such place and under such circumstances as the Comptroller of the Currency may approve, but the gold coin required to be kept in the cash reserve by each association shall be kept in a clearing house organized under this act.

Any association that fails to so keep, use, and pay out its silver coin, gold coin, greenbacks, and currency as to keep each one and all four kinds of money at a parity each with all the others from and after the setting aside of gold herein mentioned shall be deemed to have failed to pay on demand in coin or in United States legal-tender notes issued to other associations its greenbacks and currency.

No association shall plead in defense, in any action brought against it, that any greenback or currency note signed by its officers and paid out by it is a United States legal-tender note.

SEC. 8. That hereafter no certificates shall be issued or reissued by the Treasury of the United States upon the deposit of gold coin, silver coin, or any other money, and that all existing coin certificates and money certificates shall be canceled and destroyed upon being received into the Treasury, and the coin or money remaining upon which they were issued shall be free coin or money in the Treasury; and no circulating note authorized under existing law shall be issued or reissued to any banking association of a less denomination than three dollars,* and all such notes of less denomination than three dollars hereafter received for redemption shall be canceled when received in the Treasury, and like notes in blank of a larger denomination shall be returned in place of them; and no United States legal-tender notes, including Treasury notes, of a less denomination than three dollars shall be hereafter issued or reissued, but those of a larger denomination shall be issued or reissued in place of them.

SEC. 9. That there is hereby constituted and appointed a board of advisers to the Comptroller of the Currency, consisting of seven experts, to consult and advise with the Comptroller upon methods of executing existing law concerning banking, and changes desirable therein, over which board the Comptroller of the Currency shall preside.

The president of the chief reserve bank in San Francisco, New Orleans, and each of the other five chief reserve cities in the country, or such substitute as any one of them shall from time to time appoint, shall be a member of the board of advisers, which board shall meet once a year, or oftener if the Comptroller of the Currency or a majority of the board so determines, and at such time and place as the Comptroller shall appoint.

The recommendations of the board of advisers, or a synopsis thereof, and all votes, shall be entered in the records of the board. The decision of the Secretary of the Treasury from time to time as to what

* Treasury report, February 28, 1898:

\$1 notes in circulation.....	\$107, 730, 205
\$2 notes in circulation.....	31, 144, 000
Total outstanding notes under \$5.....	138, 874, 205
\$5 notes in circulation.....	273, 971, 710

person or persons are entitled to act as members of the board of advisers shall be final.

Any association aggrieved by any action taken in its case by the Comptroller of the Currency may appeal to the board of expert advisers, and the decision of such board in such case by a ye and nay vote if no member votes in the negative, or when approved by the Secretary of the Treasury, shall be final.

SEC. 10. That any five or more national banking associations are hereby authorized to unite in forming a clearing-house association. By adopting a constitution and by-laws not inconsistent with the provisions of this Act, the banking associations uniting to do so and certifying to the Comptroller of the Currency that fact shall in that act become a clearing-house association body corporate, upon such constitution and by-laws being approved in writing by the Comptroller of the Currency.

An incorporated banking association may be admitted to membership in any clearing-house association incorporated under this Act; and the membership of any banking association of such clearing-house association may be terminated by any action of the clearing-house association approved by the Comptroller of the Currency.

Any banking association may withdraw from any clearing-house association and any clearing-house association may withdraw from the national clearing-house association upon such conditions as the Comptroller of the Treasury may approve.

Each member of such clearing-house association shall share in its fees and other income, and in its assessments, expenses, and losses in the proportion that the amount of its capital bears to the total amount of all the capital of all the associations composing the clearing-house association and as shown by the annual report of the Comptroller of the Currency last made previous to the apportionment of the same, when the items of its capital are given in such report.

Each clearing-house association may make sales or loans to or buy or borrow from other clearing-house associations, and banking associations may make sales or loans to or buy or borrow from clearing-house associations. In all such buying, selling, loaning and borrowing clearing-house and banking associations shall be exempt from the usury laws of the States in which they are located.

Any clearing-house association organized under this Act may establish a department for the clearing of the greenbacks and currency of banking associations in the current redemption thereof.

Any changes in the constitution or by-laws of any clearing-house association, to become valid, must be consistent with this Act and must be approved in writing by the Comptroller of the Currency, and the Comptroller may annul any part of the same at any time after a hearing thereon, with the concurrence of a majority of the board of advisers.

Five or more clearing-house associations organized under this Act may form a national clearing-house association and any clearing house organized under this Act may be admitted to and remain a member of the national clearing-house association upon the same terms and conditions as those governing in the case of associations constituting clearing-house associations composed of banking associations, and the persons who constitute the board of advisers to the Comptroller of the Currency provided for in section nine of this Act, shall constitute the board of directors of the national clearing-house association: *Provided, however,* That national clearing-house associations may make sales or loans to and may buy or borrow from clearing-house associations and may buy and sell such bonds as are necessary or desirable to the conduct of its

legitimate business to any amount and of any kind approved of by the Comptroller of the Currency, and may provide for the coin redemption of circulating notes of banking associations, and may take and issue, under the provisions of this Act, the greenbacks described in this Act, but in denominations of not less than one thousand dollars.*

Any clearing-house association organized under this Act may be designated by the Secretary of the Treasury as a depository of public moneys, and may also be employed as a financial agent of the Government.

Any clearing-house or banking association organized under this Act may, with the approval of the Secretary of the Treasury, deliver to the Treasurer of the United States or to any assistant treasurer of the United States, for safe-keeping, any kind of money or bonds, and receive such a statement of the fact of their being in the Treasury of the United States as the Secretary of the Treasury may approve.

Clearing-house associations shall be subject to like examination by national-bank examiners as national-banking associations, and shall make such reports to the Comptroller of the Currency as he may request.

The meeting together of any persons who are officers, agents, or employees of any five or more associations in any one or more places once in ten days or oftener for the purpose of exchanging, paying, or in any other way satisfying any obligations used in commerce among the several States by any two or more of such associations, shall constitute such associations represented in such meeting a clearing-house association for the purpose of the taxation herein imposed, and such associations represented shall be jointly and severally liable to pay, and shall pay, into the Treasury of the United States a tax in amount equal to one-fiftieth of one per centum on the aggregate amount of all such exchanging, paying, or in any way satisfying such obligations, at each and every meeting of persons acting for such associations: *Provided, however*, That in case any such association pays one-half of the tax herein imposed on or before the day it is due and payable, the other half shall be, and is hereby, remitted: *And provided further*, That the tax herein imposed on associations herein described shall be wholly remitted to each one and all associations that are members of clearing houses incorporated under this Act.

SEC. 11. That the Comptroller of the Currency may issue to the National Clearing-House Association or other clearing-house association organized under this Act, or to any national-banking association, greenbacks to any amount approved of in writing by the Secretary of the Treasury, in addition to the amount of greenbacks hereinbefore

* The financial and banking system of the United States, as of every other nation, must be built from the top down, having a great national bank with myriads of branches, as are those of Europe, like European governments, or it must be built from the bottom up. The independent individual bank, while retaining its independence, will be united with all other banks to form a democratic but strong and symmetrical system, as our institutions are built up from the individual. There is no escape from it. This section accomplishes that purpose. It makes a solid union of all the banks in the country into practically one bank, with all the advantages of a United States national bank, with 8,000 branches, now State and national, leaving each bank as free as now and with none of the disadvantages of a United States national bank. It also gives to every country bank all the assistance and support it could receive were it a branch of a United States national bank.

authorized: *Provided*, That the association applying for such additional greenbacks shall deliver to the Treasurer of the United States or to any assistant treasurer bonds* in kind and amount acceptable to the Secretary of the Treasury, as security for such greenbacks, and shall pay interest on the amount of such greenbacks so issued at the rate of six per cent per annum, such interest on such greenbacks to be paid at such time and in such manner as the Comptroller of the Currency may determine; but no more in amount than ninety per cent of the par value of any bond shall be issued in such greenbacks, and no bonds other than bonds of the United States shall be accepted by the Secretary of the Treasury as security when there are three hundred millions or more of United States bonds outstanding.

Any association depositing bonds and receiving greenbacks secured thereby may withdraw such bonds so deposited, after thirty days from the date of such deposit, upon paying the accumulated interest on the amount of greenbacks issued upon the deposits of such bonds and up to the date of their withdrawal, and in addition to such interest shall deposit with the Treasurer greenbacks or other lawful money to an amount equal to the greenbacks issued to the association as security for which the bonds were deposited; but no more than five per centum of the greenbacks issued to any association other than the one receiving such greenbacks shall be accepted as a deposit for the withdrawal of such bonds.

The money so deposited for the withdrawal of such bonds shall be immediately put in redemption, and the money received for it shall be kept as a special fund with which to redeem the amount of greenbacks issued to the association; and such greenbacks shall be redeemed, and when redeemed shall be destroyed to an amount equal to the greenbacks issued to the association for the security of which the bonds hereinbefore mentioned were deposited.

The Secretary of the Treasury shall publish once in seven days, or oftener, in the "Statement of the condition of the United States Treasury and the receipts and expenditures," a list of the securities and the amount of each kind accepted by him to secure greenbacks issued or proposed to be issued upon the deposit of bonds, or of bonds to secure any deposits of money made in any association.

SEC. 12. That in order to enable the Secretary of the Treasury to carry into effect the provisions of the Act of January fourteenth, eighteen hundred and seventy-five, entitled "An Act to provide for the resumption of specie payments," and of this Act, the Secretary of the Treasury is hereby authorized to issue and sell from time to time, for the period of four years, bonds as described in the Act of July fourteenth, eighteen hundred and seventy, entitled "An Act to authorize the refunding of the national debt," such bonds to be payable at the pleasure of the United States after one year from the date of their issue and upon the

* United States bonds in national banks to secure circulation	\$227, 484, 000
Other United States bonds in national banks	\$17, 576, 925
Other bonds held by national banks (estimated)	125, 000, 000
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Total bonds held in 1895	142, 576, 950
The total securities, aside from United States bonds, held by national banks, most of which are bonds.	148, 569, 950

expiration of three years, or bonds payable after three years and upon the expiration of seven years, or bonds due on a certain day within three years from the date of such bonds, as the Secretary of the Treasury may elect, such bonds to bear interest at a rate not exceeding three per centum per annum.

SEC. 13. That when the amount of the daily total reserve held by any national banking association averages to be less for any month than the amount required, it shall pay into the Treasury of the United States a tax at the rate of six per centum per annum on the amount of the average deficiency for that month in such reserve.

Whenever any association fails to pay on demand in silver or gold coin or in United States legal-tender notes issued to other associations the greenbacks and currency signed by its officers and paid out by it, it shall be subject to and shall pay an additional tax, at the rate of one per centum per annum, on a sum equal to the average amount of the individual deposits in such association during such failure and until such payment is resumed: *Provided*, That in case any association pays one-half the tax herein imposed on or before the day it is due and payable the other half shall be and is hereby remitted. And whenever it shall appear to the satisfaction of the Comptroller of the Currency that any one of the four kinds of money, namely, currency, greenbacks, silver coin, or gold coin, of the United States is at a premium in any one of the central reserve cities in any other one or more of the other kinds of money herein named, it shall thereupon become his duty to declare and publish the same in the "Statement of the Condition of the United States Treasury and its Receipts and Expenditures," and such publication shall be held to be conclusive evidence that all the associations of deposit, loan, and discount as herein described in the United States have failed to pay on demand in silver or gold coin of the United States their greenbacks and currency, and the tax herein imposed for such failure shall be due and payable from each of such associations from and after the day the notice of such failure is published by the Comptroller of the Currency in the "Statement of the Condition of the United States Treasury and its Receipts and Expenditures," and so long as such failure continues, and until the day the Comptroller of the Currency gives notice in like manner that such failure no longer continues.

In addition to all other taxes imposed in this Act, each association organized under it shall pay into the Treasury of the United States a tax in each year, as the Secretary of the Treasury shall from time to time prescribe, equivalent to not less than one-fifth nor more than one per centum per annum* on the average amount of currency issued to it

*Four-fifths of the present paper-money circulation would be \$800,000,000; one-half of 1 per cent per annum on the currency would yield \$4,000,000 per annum. The losses on the circulation to the United States Treasury on notes of insolvent banks, as shown by thirty-two years' experience under the existing banking laws, were not \$16,000,000 during the whole thirty-two years of the existence of the national banking system, about \$500,000 per annum, had the national banks issued their notes under the provisions of this bill. The Government estimate for the bills lost and worn out past redemption, and to the advantage of the United States Treasury, is two-fifths of 1 per cent per annum on all circulation. Excluding the \$1 and \$2 bills, the loss might not be more than one-half, and the gain to the United States at one-fifth of 1 per cent on the \$800,000,000 would be \$1,600,000.

For the last five years the 1 per cent tax now collected on circulation has averaged \$1,582,443. The banks are now in effect carrying without

and in circulation and for the purpose of covering any loss which the Treasury may otherwise sustain by reason of the insolvency of any association to which currency was issued under this Act: *Provided, however,* That such tax shall not be levied to exceed one-fifth of one per centum per annum at a time when the total amount of all moneys paid into the Treasury under the tax imposed in this clause exceeds by eight million dollars the total net amount paid out of the Treasury in redemption of the currency of insolvent associations in cases where the assets of such associations were not sufficient to pay such notes or sufficient to recoup the Treasurer of the United States for the payment by him of such notes.

A tax equal in amount to one-fifth of one per centum per annum is hereby imposed on the average amount of the individual deposits subject to payment by check or draft or like instrument, whether payable on demand or at some future time, that are in each incorporated banking association, trust company, insurance company, loan association, or other corporation doing a deposit and loan and discount business, by discounting and negotiating promissory notes, drafts, bills of exchange, and other evidences of debt; by receiving deposits; by buying and selling exchange, coin, and bullion; by loaning money on personal security, when any part of the obligations bought or received or sold or issued by it are used in whole or in part in commerce among the several States: (1) *Provided,* That in case any association pays one-half the tax herein imposed on or before the day it is due and payable the other half shall be and is hereby remitted: (2) *And provided further,* That any association is hereby authorized to deposit in the Treasury of the United States an amount of lawful money equal to not less than twelve and one-half per centum of the amount of its capital, and to receive legal-tender notes of the United States to the amount of such deposit. Such notes issued to it shall have a circulating note of such association printed on the reverse side, which note, when the note of the association printed on the reverse side is signed by the proper officers of the association, shall be known as a greenback, and may be paid out by it, but under the same liabilities, obligations, and restrictions as to redeeming such greenbacks in silver or gold coin or United States legal-tender notes, and of keeping such greenbacks at a par with the silver coin and the gold coin of the United States, as are imposed upon national banking associations when like notes are issued to national banking associations: * *Provided, however,* That the securing such notes

interest every dollar of the \$1,000,000,000 paper money in circulation. The saving in interest to the people under this bill is estimated at from \$36,000,000 to \$50,000,000 per annum, ultimately making that much saving per annum in lower rates of interest on the loans made to the people. Besides these items, J. S. McCoy, Government actuary, estimates the loss to the people in interest on the gold carried in the United States Treasury from 1879 to 1895 at \$144,241,556. It will be more, rather than less, in the next twenty-five years under the present system.

* Cash reserve required in 1897.....	\$287,742,000
Cash reserve held in 1897.....	388,883,000
Including State banks the cash reserve held could not be less than.....	563,000,000

Holding the cash reserve one-third in silver would equal \$186,000,000, and one-third in gold would equal \$186,000,000, one-third in greenbacks, \$186,000,000; total, \$563,000,000; so that the substitution of silver dollars for the \$1 and \$2 notes added to the \$186,000,000 of silver dollars held in banks in the reserve fund would increase the actual coin silver dollar in constant use by \$325,000,000.

by any association other than national banking associations shall confer upon it no authority to issue any other circulating notes. In case any association takes out circulating notes, as provided in this section and named greenbacks in this Act, the tax imposed on such association in this section shall be wholly remitted; but in case such notes are taken out and such tax is remitted such association shall keep such record and make such reports to the Comptroller of the Currency and submit to such examinations by national-bank examiners as are now or may hereafter be required of national banking associations.

Each deposit of money or funds made by any individual or by any association in any other association however organized doing the banking business defined in this section upon which the association receiving such deposit pays or agrees to pay any money or interest shall not be subject to withdrawal excepting on a day named in a notice given in writing to such association, and not less than thirty days before such withdrawal: *Provided*, That this section shall not apply to the total amount of all moneys or funds deposited within the seven days next preceding such notice, or to moneys or funds that banking associations are required to keep and are allowed to keep in other associations as a part of their reserve.

This section of this Act shall take effect on the first day of the first calendar quarter next succeeding the four months next succeeding the day of the approval of this Act.

SEC. 14. That all taxes imposed by this act shall be due and payable semiannually on the first day of April and the first day of October in each year. Any clearing-house association, when requested so to do by any banking association, and with the approval of the Comptroller of the Currency, may assume and may pay any tax imposed on such association by this Act.

All moneys received under this Act, unless otherwise provided shall be covered into the Treasury as a miscellaneous receipt. The Treasurer shall keep an account of all moneys paid into the Treasury or paid out by him under each of the several sections of this Act and include a statement of the same in his annual report.

SEC. 15. That upon the insolvency of any association, or whenever, in the opinion of the Comptroller of the Currency, the complete redemption and retirement of the currency issued to and retained by any national banking association is then necessary for the protection of the United States Treasury or of the holders of such currency, the Comptroller may take possession of all the assets of such association, which assets shall be held to include the liability to assessment of all stockholders, and appoint a receiver, who is hereby authorized, under the direction and control of the Comptroller of the Currency, to create and deliver to the Treasurer of the United States a fund equal in amount to such currency; and the receiver, under the direction of the Comptroller of the Currency, is hereby authorized to sell the whole or any part of the property of such association, or to pledge the whole or any part of its property or assets, at any time, as security for any loan he may elect to make in order to create such fund; and if there shall be any assets remaining after the above-mentioned fund is created the Comptroller of the Currency shall then proceed in like manner to create and deliver to the Treasurer of the United States a fund equal in amount to the aggregate of all deposits of moneys made in the association either directly or indirectly by the United States Treasurer, including those of any and all officers or agents of the United States Government; and the receiver, after the completion of such fund or funds or as much thereof as can be realized from the assets, and not before, shall

administer the remaining assets, if there be any, for the benefit of creditors and shareholders of the association; and the Comptroller of the Currency shall have like power and authority, and shall proceed in the same manner in the case of clearing-house associations organized under this Act.

The five per centum reserved from the moneys deposited by the insolvent association for the current redemption of the greenbacks of such association shall be free moneys in the Treasury, and the five per centum on the currency taken out which was deposited for the current redemption of such currency shall be returned to the receiver of the insolvent association.

The greenbacks and currency of an insolvent association shall be immediately redeemed and canceled by the Treasurer of the United States, out of any moneys in the Treasury not otherwise appropriated.

SEC. 16. That the Comptroller may at all times know the condition of each national banking association, each association shall make such record at the close of each day as the Comptroller shall request, in a book kept for that purpose, which record shall show the total amount of its currency paid out and in circulation, and the amount of currency received from redemption agents, and its total individual deposit account, and its total reserve account, as shown by its books at the close of each business day, and of what the reserve consisted, which daily record of deposits, reserve, and currency, and other matter requested by the Comptroller, shall be made up in duplicate for each month, and two copies or reports thereof transmitted to the Comptroller of the Currency on or before the tenth day of the following month.

Before making the record for the day, as required by the Comptroller, every transaction of that day pertaining thereto shall be duly entered in the books of the association.

The records and reports herein provided for, and any other facts and data he may request of associations or any director or officer thereof, shall be in such form as the Comptroller may direct.

National-bank examiners shall be held to be employees in the office of the Comptroller of the Currency while examining associations whose business is covered by this Act, and their fees for such examinations shall be paid out of the appropriation for the Bureau of the Currency.

The operation of so much of all laws or parts of laws as are in conflict with this Act is hereby suspended.

NOTE.—The "visible gold"—gold in banks and in the United States Treasury—is reported by the Comptroller, on page 22, Report of 1896, to be \$421,236,388. January 1, 1899, visible gold amounted to about \$800,000,000.

APPENDIX.

INDEPENDENT TREASURIES.

Boston, Mass.....	\$38,910
New York, N. Y.....	196,360
Chicago, Ill.....	37,420
San Francisco, Cal.....	27,120
New Orleans, La.....	20,490
St. Louis, Mo.....	22,460
Cincinnati, Ohio.....	18,760
Washington, D. C.....	
Baltimore, Md.....	38,910
Philadelphia, Pa.....	42,340
Total expenses.....	<hr/> 442,770

RESERVE CITIES.

Boston, Mass.	San Francisco, Cal.
New York, N. Y.	St. Joseph, Mo.
Brooklyn, N. Y.	Kansas City, Mo.
Albany, N. Y.	St. Louis, Mo.
Cleveland, Ohio.	New Orleans, La.
Detroit, Mich.	Houston, Tex.
Chicago, Ill.	Savannah, Ga.
Milwaukee, Wis.	Louisville, Ky.
Des Moines, Iowa.	Cincinnati, Ohio.
St. Paul, Minn.	Washington, D. C.
Minneapolis, Minn.	Baltimore, Md.
Omaha, Nebr.	Philadelphia, Pa.
Lincoln, Nebr.	Pittsburg, Pa.

A COMPARISON
OF THE
HILL-FOWLER BILL, H. R. 10289,
WITH THE
WALKER BILL, H. R. 10333,
BY
SUBJECTS.

PREPARED BY THE CHAIRMAN OF THE COMMITTEE.

A comparison of the Hill-Fowler bill, H. R. 10289,

Page. Line.

NO PROVISION MADE FOR TRANSITION PERIOD.

No provision made for the assistance of men trained in the business—in transacting the business of banking for 75,000,000 people, and soon to be 200,000,000.

No provision made for an appeal from the decision of the Comptroller in any case.

NON-INCORPORATED CLEARING HOUSES.

17 18 to 22 Country divided into clearing-house districts by the Comptroller when clearing houses have no legal existence. (How many.)

17 23 to 25 Clearing-house district printed on currency notes issued in it.

18 1 to 4 Clearing house city?

18 2 to 4 Currency notes must be currently redeemed in some banking association in a clearing-house city in its clearing-house district.

19 4 to 9 Banking associations must provide for the "current redemption" of its currency notes in every clearing-house district in which its notes are paid out over the counter of banks.

No issue of emergency "legal-tender notes" or other emergency "money" provided for.

with the Walker bill, H. R. 10333, by subjects.

DURING TRANSITION.

- | Page. | Line. | |
|-------|----------|--|
| 3 | 8 to 11 | Banks may take greenbacks to 50 per cent of capital. |
| 3 | 22 to 25 | The taking out of currency restricted to an amount equal |
| 4 | 1 to 4 | to the greenbacks taken. |
| 6 | 2 to 8 | Transition is completed [when \$200,000,000 United States notes are assumed by banks and] when the Treasurer sets aside certain gold in the Treasury to redeem and cancel the balance of the outstanding United States notes [viz, \$146,000,000]. |
| 9 | 21 to 24 | After thirty days from the completion of the transition |
| 10 | 1 to 3 | the required "cash reserve" of banks to be kept, as near as may be, one-third each, in gold coin, silver coin, and greenbacks. |

COMPTROLLER OF THE CURRENCY THE EQUIVALENT OF THE PRESIDENT, AND THE BOARD OF ADVISERS TO SEVEN DIRECTORS OF THE GENERAL BANKING BUSINESS OF THE COUNTRY, AS ONE BANK.

BOARD OF SEVEN ADVISERS.

- | | | |
|----|----------|---|
| 11 | 12 to 17 | To Comptroller of the Currency. |
| 11 | 18 to 22 | Members are the president of the chief reserve bank in New Orleans, president of chief reserve bank in San Francisco, and the presidents of the chief reserve banks in the other five chief reserve cities. |
| 12 | 1 to 3 | Are to meet annually or upon the call of the Comptroller or upon its own motion. |
| 12 | 4 to 8 | To keep a record of its doings.
In case of doubt as to what persons are to act on the board the Secretary of the Treasury is to decide. |
| 12 | 9 to 14 | Parties aggrieved at any action of the Comptroller may appeal to the board of advisers.
Unanimous decision final.
In case a minority dissents the decision of the Secretary of the Treasury final. |
| 14 | 5 to 10 | May annul by a majority vote any action of the Comptroller proposing to change any by-law of a clearing house. |

INCORPORATED CLEARING HOUSES.

FIVE OR MORE ASSOCIATIONS MAY FORM A CLEARING HOUSE.

- | | | |
|----|----------|---|
| 12 | 15 to 22 | The act of "approving the by-laws" by the Comptroller constitutes the banks associated to adopt them a "body corporate." |
| 12 | 23, 24 | Any banking association may be admitted a member. |
| 13 | 1 to 4 | May exclude any association with approval of Comptroller. |
| 13 | 5 to 9 | Any association may withdraw with approval of Comptroller. |
| 13 | 10 to 17 | Profits and loss to be shared by the associations making up the clearing house, in the proportion that the capital of each bank is to the total capital of all members. |

ISSUE AND REDEMPTION DEPARTMENT.

- 2 23 to 25 To Issue and Redemption Department "is committed ALL
3 1 to 12 FUNCTIONS of the Treasury Department" (excepting
receiving moneys due the Treasury Department from
debtors, and making to creditors the disbursements
provided for by law).
SHALL HOLD all "Guarantee" and "Redemption"
funds for circulating notes.
Through it shall be conducted the operation of *redeeming*
the "circulating notes" of all associations.
Shall be transferred to it all gold coin and bullion, silver
bullion, silver coin and United States notes held against
"certificates," and the "FUNDS" for the redemption
of "CIRCULATING NOTES" and the funds for the
retirement of circulating notes.

Page.	Line.	
13	18 to 21	May buy, borrow, sell, or loan to other clearing houses or banks.
13	22 to 24	Usury laws not to apply to transactions of clearing houses.
14	1 to 4	May establish a department to "CURRENTLY RE-DEEM" the greenbacks and currency of banks.
14	11 to 17	Five or more clearing houses may form a national clearing house. All provisions relating to banks in their relation to clearing houses shall apply to clearing houses in their relation to the national clearing house.
14	18 to 22	National clearing house may deal in any bonds approved of by the Comptroller.
14	23	May provide for the "current redemption" of "circulating notes."
15	1, 2	May take out emergency greenbacks in denominations of not less than \$1,000, secured by United States bonds. Section 11.
15	3 to 6	May be designated as fiscal agents of the Government and as depositories of public moneys.
15	7 to 14	May keep their bonds and moneys with the United States Treasurer or any assistant treasurer with the approval of the Secretary of the Treasury.
15	15 to 18	Shall be subject to like examination by national-bank examiners as banks, and to make such reports as the Comptroller may request.
15	19	The meeting together of the employees of banking associations to make "clearings" shall constitute the banks employing such persons a "clearing house," and make the banks they represent liable to a tax of one-tenth of 1 per cent on all clearings unless they submit their by-laws for the approval of the Comptroller and become a "body corporate."
16	1 to 20	
17	17 to 21	Emergency legal-tender greenbacks taken by clearing
18	1 to 7	houses or banks may be surrendered and the bonds recovered, or any other greenback may be deposited to the amount of the greenbacks taken out, plus the accumulated interest, and the bonds recovered.

So much of the duties named as are necessary are devolved on Secretary of the Treasury, the Treasurer of the United States or on the Comptroller of the Currency.

Page. Line.

- 3 13 & 14 Such an amount of "subsidiary and minor coins" as the Secretary of the Treasury considers necessary for "the issue and exchange of such coins."
- 3 17 to 19 Accounts of Issue and Redemption Department "SHALL be kept entirely apart and distinct from the other divisions of the Treasury Department."
- 3 23 to 25 Reserve fund SHALL be established in Issue and Re-
- 4 1 to 6 demption Department of 25 per cent of
\$346 mil. U. S. Notes.
104 mil.
- | | | |
|----------------------|---|---------------|
| | = | Gold. |
| 450,000,000 | = | \$112,500,000 |
| and 5 per cent of | | |
| \$500,000,000 silver | = | 25,000,000 |
| | | Total |
| | | \$137,500,000 |
- 4 7 to 10 \$137,500,000 gold shall be held as a "common fund" and used *exclusively* to "redeem United States notes, Treasury notes, silver dollars and subsidiary and minor coins." (See page 3, lines 13 and 14.)
- 4 11 to 25 Gets its funds at the option of the Secretary of the Treas-
- 5 1 to 13 ury.
- 5 Sec. 6. TEN mandatory directions for doing its business.
- 6 24 & 25 SHALL "cancel" such amounts of notes "redeemed in
- 7 1 to 4 gold" "as SHALL NOT EXCEED the NATIONAL RESERVE NOTES ISSUED SUBSEQUENT TO THE TAKING EFFECT OF THIS ACT."

THREE COMPTROLLERS OF THE CURRENCY, AT A COST OF \$23,000.

Duties prescribed.

First Comptroller a sort of "Assistant Treasurer."

All action dependent on the Secretary of Treasury.

Page 7, line 7.

- 1 6 to 11 Comptrollers do duty of present Comptroller.
Manage Issue and Redemption Department.
- 1 12 Present office of Comptroller abolished.
- 2 1 & 2 Comptrollers appointed by President and Senate.
- 2 3 & 4 Comptrollers removed by President and Senate.
- 2 4 to 9 Appointed for 4, 8, 12 years; then for 12-year terms.
- 2 10 & 11 In a Comptroller's last four years he is to be First Comptroller.
- 2 12 to 18 First Comptroller, practically Assistant Treasurer, has custody of all funds. To give \$250,000 bond.
- 12 6 to 14 To prepare three kinds of "circulating notes," etc.
- 14 6 to 13 After four years MAY reduce deposit of United States bonds.
After eight years no bonds shall be required.
- 15 9 to 14 When no more United States notes are available as a basis for "CIRCULATING NOTES" THE deposit of such notes SHALL no longer be required (see page 16, lines 10 to 14), but the deposit of "gold coin" for them may be required.
- 15 15 to 18 May issue reserve notes upon the deposit of gold coin.
- 16 10 to 14

Page. Line.

PRESENT COMPTROLLER OF THE CURRENCY AT PRESENT COST OF
\$5,000.

- 3 22 to 25 SHALL issue "CURRENCY" only to the amount of
 4 1 to 4 greenbacks taken during transition.
 4 5 to 11 Thereafter he SHALL issue "CURRENCY" to each bank
 not less in amount than its "greenbacks" and not less
 than 25 per cent in excess of its average circulation of
 "currency" during the two years next preceding, and
 MAY issue to the full amount of actual capital.
 5 3 to 5 May print currency or greenbacks in anticipation of use.
 8 5 to 11 May extend corporate limit of associations.
 May allow banks to reduce their greenbacks to required
 amount, with approval of Secretary of the Treasury.
 8 12 to 17 Shall destroy currency surrendered to him.
 10 4 to 6 May allow associations to keep their bonds and coin in any
 suitable place.
 11 12 to 17 Board of advisers to.
 12 1 to 3 May call a meeting of board of advisers at any time or
 place.
 12 9 to 14 An appeal may be taken from all decisions of the Comp-
 troller to the board of advisers.
 12 15 to 22 By-laws of clearing houses must be approved by comp-
 troller.
 13 1 to 4 Clearing houses can not expel an association without the
 approval of the Comptroller.

Page. Line.

- 15 19 to 25 When no more "reserve notes" are available, the taking out of "reserve notes" shall be no longer required.
When "reserve notes" are "no longer available," banking associations can issue "currency notes" under the restriction of page 11, lines 10 to 24, and page 14, lines 18 to 21.
- 16 1 to 5 Gives unlimited power to withdraw from circulation "reserve notes" down first to 40 per cent to capital and finally using all the gold reserve, etc. (forcing the hands of the Secretary of the Treasury).
- 16 6 to 8 Thereafter the Comptroller shall equitably "withdraw" "reserve notes."
- 16 24 & 25 Reserve notes withdrawn and canceled by the use of surplus revenue shall not be reissued (when "reserve notes" are withdrawn by the use of surplus revenue, no increase of such notes can thereafter be made).
- 17 5 to 12 May reduce "currency notes" of banks by depositing, etc., with the Assistant Treasurer. (Where is the "Assistant Treasurer" provided for?)
- 17 12 to 17 May reimburse banks for surplus of "bank notes," "REDEMPTION FUNDS," or "currency - note" "GUARANTEE FUND" above amount required to be held against "circulation."
- 17 18 to 25 To divide the United States into redemption districts for redemption of "currency notes."
- 18 19 to 25 In case of failure to redeem in "gold coin," they to immediately put association into insolvency.
- 19 1 to 21
- 20 13 to 23 Shall assess each bank not exceeding 1 per cent on their "currency notes" in circulation to guarantee all "currency notes."
- 20 24 & 25 (See page 4, lines 7 to 10.) May invest "gold guarantee fund" in "United States obligations" at "not exceeding 6 per cent premium" (?) for benefit of the "fund."
- 21 20 to 23 MAY provide for redemption of "reserve" and "bank" notes at subtreasuries.
- 22 12 to 23 When the circulating notes of any bank shall be presented for redemption in sums of \$1,000, made up of reserve notes, bank notes, and currency notes, or any one of them, at the Treasury or subtreasury, the same shall be redeemed in gold coin.
- 23 22 to 25 } Banks to report to the Comptroller.
- 24 1 to 6 }
- 24 14 to 25 } One-fourth of 1 per cent per annum tax on franchise, less
- 25 1 to 3 } one-half per cent premium paid on reserve notes taken out, to support Department of Comptroller of the Currency.
- 26 12 to 15 May permit banks to establish "branches."
- 28 4 to 11 May get reports provided in Walker bill. (Very clumsy phraseology.)
- 28 20 to 25 May permit national banks to organize under the act.
- 29 15 to 24 May permit State banks to organize under the act.
- 31 8 to 11 May prepare "circulating notes" in anticipation of delivery to banks.

Page.	Line.	
14	5 to 10	Changes of by-laws of clearing houses to be valid must have the approval of the Comptroller.
		May annul any clearing-house by-law with the concurrence of a majority of the board of advisers.
16	21 to 24	May issue to clearing houses, or banks, emergency greenbanks secured by bonds in denominations not less than \$1,000 to the amount of 90 per cent of such bonds, interest to be paid on such greenbacks by the association taking them, at the rate of 6 per cent per annum.
20	6 to 24	To decide when banks are to be taxed on their deposits for failure to maintain parity, and on the beginning and ending of the period of taxation.
21	1	
25	7 to 23	May take possession of the assets of unsound banks and— First. Create a fund to secure the payment of "currency notes."
25	24	Second. Create a fund to secure the payment of "Government deposits."
26	1 to 14	
27	1 to 21	To have monthly reports of the daily condition of banks, and such other reports as he may request.

Page. Line.

A strictly "bank note," called "NATIONAL-RESERVE
NOTE," is substituted for United States notes and
declared "legal tender."

Page. Line.

\$200,000,000 UNITED STATES NOTES PRESERVED AS GREENBACKS.

- 2 4 to 10 Deposit "lawful money" for.
- 2 21 to 25 Deposit United States notes, Treasury notes, coin or coin
- 3 1 to 7 certificates equal to 12½ per cent of actual capital for new
issue of "UNITED STATES - LEGAL TENDER
NOTES."
- 3 12 to 15 They are made the "promise to pay" of the bank, by
the signatures of its officers.
- 3 20 to 21 Name of United States legal-tender note, plus currency
note, is "greenback."
- 5 14 to 18 Five per cent current redemption fund furnished by United
States Treasurer as a common fund for "greenbacks"
and "currency."
- 7 7 to 11 Holdings to be reduced to 12½ per cent to capital to all
associations from moneys paid for greenbacks after
transition is effected.
- 7 12 to 15 Amount of greenbacks held by a bank may be increased
by the Treasurer to amount required.
- 7 16 to 21 To be reduced below 12½ per cent to capital as banking
capital increases so as to keep total amount uniform
[viz., \$200,000,000].
- 8 1 to 4 May be reduced by banks to the amount required with the
and approval of the Comptroller and the Secretary of the
8 to 6 Treasury.
- 8 5 to 11 Upon the expiration of corporate existence by insolvency,
or by consent of Comptroller approved by Secretary of
the Treasury, the Treasurer shall finally redeem green-
backs.
- 8 18 to 25 Each bank to keep good its proportion of the 5 per cent
redemption fund furnished by the Treasurer.
- 9 1 to 2 Current redemption fund can not be counted in the reserve
of any bank.
- 9 3 to 8 Sums of greenbacks and currency aggregating \$500 or 1
per cent to capital, of any association, to be redeemed.
- 9 9 to 11 Shall redeem in "LAWFUL MONEY," its "greenbacks,"
and "currency" at its own banking house and
At an agency approved by the Comptroller, in some reserve
city.
- 10 7 to 13 Banks to maintain parity, or be in default.
- 10 14 to 17 Can not plead in defense, when in default, that its own
"greenbacks" are "United States notes."
- 11 1 to 11 Not to be issued in denominations of less than \$3.
- 15 1 to 2 Emergency greenbacks secured by bonds in denominations
- 16 21 to 24 of not less than \$1,000 may be taken out by banks or
- 17 1 to 21 clearing house.
- 18 1 to 7
- 26 15 to 17 Five per cent reserved for redemption fund to be free
moneys in the Treasury in case of insolvency.
- 26 22 to 25 In case of insolvency to be immediately redeemed by the
Treasurer and canceled.
-

NATIONAL "RESERVE NOTES."

Page.	Line.	
8	16 to 25	Exchange of United States notes (only) for "reserve notes."
		Redeemable in "gold coin" ONLY.
9	20 to 24	May exchange United States notes for "reserve notes"
10	1 to 7	equal to its paid-up capital.
12	15 to 20	To imitate the present United States legal-tender note and contain "promise of association" to redeem at office in gold coin.
13	18 to 23	This bank note a "full legal-tender" excepting for duties on imports and interest on the public debt.
		May be "used in reserves of any association."
15	15 to 18	Deposits of gold coin instead of United States notes for
16	10 to 14	them, but not in excess of reserve notes destroyed.
15	19 to 25	Comptrollers may dispense with their use.
16	1 to 5	Withdraw holdings above 40 per cent to be first made.
16	6 to 8	Thereafter such withdrawal SHALL be equitably made.
16	8 & 9	Destroy all reserve notes "withdrawn."
16	24 & 25	Once "surplus revenues" are used to cancel reserve notes, no more "reserve notes" can thereafter be issued.
16	25 to 23	Surplus funds as "surplus revenue" (after United States notes and Treasury notes are destroyed) used to cancel "reserve notes."
17	1 to 4	Reserve notes of any association decreased shall not lessen the "circulating notes" any banking association would otherwise be entitled to. (See page 15, lines 18 to 25.)
21	14 to 20	Shall keep in Issue and Redemption Department a "redemption fund" in "gold coin equal to 5 per cent of its 'reserve notes'" (and bank notes).
19	2 to 4	In case of insolvency to be redeemed from the general "reserve" in Issue and Redemption Department.
20	1 to 5	Upon redemption, in case of insolvency, shall be destroyed.
21	21 to 23	} Shall be redeemable at "subtreasuries".
22	12 to 23	
21	25 & 25	Shall be currently redeemed in gold coin in amounts of
22	12 to 23	\$1,000, including all circulating notes.
23	6 to 8	(Old law) 5 per cent gold redemption fund can be counted in reserve.
24	21 to 24	Banks paid $\frac{1}{2}$ per cent per annum premium for taking out reserve notes.
28	12 to 19	The taking of "reserve notes" made compulsory.
29	4 to 11	Banks shall be dissolved upon failure "to comply with any provision of this act."

NATIONAL "BANK NOTES."

9	1 to 3	Depositing United States bonds for "bank notes."
9	9 to 11	Can secure "bank notes" plus "currency notes" to an
	and 18	amount equal to its "paid up capital."
10	8 & 9	May take "bank notes" equal to par of United States
10	14 to 27	bonds deposited, and to amount of capital, page 9, line 24, and page 11, line 17, but reduced by currency notes taken.

Page. Line.

Has no corresponding note.

Has no corresponding note.

Page.	Line.	
11	5 to 9	If bonds depreciate below par, more bonds must be deposited.
12	23 to 25	To imitate present "NATIONAL BANK NOTES."
13	1 to 3	Contain promise of association to redeem at its office in gold coin or "reserve notes."
13	24 & 25	} Legal tender "between banks."
14	1 & 2	
14	3 to 5	Can not "count ITS OWN" bank notes or currency notes in its cash or "cash assets."
17	1 to 4	Canceling reserve notes of any bank by use of "surplus revenue" not to lessen "circulating notes" of such bank. (See page 14, lines 18 to 21.)
17	5 to 12	Banks may reduce bank notes by depositing with the "ASSISTANT TREASURER" in charge of the Issue and Redemption Department a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes in gold and sending them to the Comptrollers of the Currency.
21	14 to 20	Shall keep in Issue and Redemption Department a "redemption fund" in gold coin equal to 5 per cent of its "bank notes."
19	4 to 9	Bonds deposited to be sold to redeem bank notes in case of insolvency.
20	1 to 5	Destroyed when redeemed, in case of insolvency.
21	21 to 23	} Redeemable at Treasury or "subtreasuries" only.
22	13 to 23	
21	24 & 25	} SHALL be "currently redeemed" in gold coin in sums of
22	13 to 23	
23	6 to 8	(Old law) Its 5 per cent gold redemption fund can be "COUNTED IN ITS RESERVE."

"CURRENCY NOTES."

NOT SECURED BY THE GUARANTY OF THE GOVERNMENT.

9	4 to 8	Bank assets liable for "currency notes."
9	9 to 11	Can take out "currency notes" plus "bank notes" to an amount equal to its paid-up capital.
11	10 to 24	Restrictions not to exceed "reserve notes" taken; not to exceed bank notes taken; not to exceed 40 per cent to paid-up capital, but can take 20 per cent more, with 40 per cent of bank notes, equals 100 per cent by paying 6 per cent per annum tax on last 20 per cent.
12	11	In denominations of \$10, and multiples thereof for all circulating notes.
13	4 to 9	Shall contain promise of association to redeem at its office in gold coin or "reserve notes."
13	10 to 15	To state on its face issued under this act.
17	18 to 22	To state on its face its clearing-house district.
17	23 to 25	To state on its face the number of its clearing-house district. (How many clearing-house districts.)
13	24 & 25	} Legal tender "between banks."
14	1 & 2	
14	3 to 5	Can not count its own "currency notes" in its cash assets.

Page. Line.

"CURRENCY."

SECURED BY THE GUARANTY OF THE GOVERNMENT.

- 4 5 to 11 SHALL be issued to banks equal in amount to 25 per cent more than the currency the bank averaged to have in circulation during the two years next preceding (to be determined by amount of currency a tax was paid on), and the Comptroller may issue currency to a bank to the full amount of actual capital.
- 4 12 to 15 Current redemption fund equal to 5 per cent of currency in actual circulation.
- 4 16 to 18 A common redemption fund for currency and greenbacks.
- 4 19, 20 Lawful name "currency."
- 5 1, 2 To have printed on it that it is to be finally redeemed by the Treasurer of the United States.
- 5 3 to 5 Supply may be printed in advance of use.
- 8 12 to 17 May be reduced only by being surrendered to Comptroller.
- 8 18 to 25 Each bank to keep good its 5 per cent current redemption fund on its currency and the 5 per cent redemption fund on greenbacks furnished by the Treasurer.
- 9 1, 2 Current redemption fund can not be counted in the reserve of any bank.

Page.	Line.	
17	1 to 5	Withdrawal for cancellation of "reserve notes" of any bank not to lessen "circulating notes" of such bank.
17	5 to 12	May reduce holding of "currency notes" by depositing with the "Assistant Treasurer in charge of the Issue and Redemption Department" a sum in gold coin equal to the amount of the reduction desired, or by redeeming its notes in gold and sending them to the Comptroller of the Currency. (Where is the provision for an Assistant Treasurer?)
17	18 to 25	Shall be "redeemed" in their respective districts.
18	1 to 4	Shall be "currently redeemed" by some association in a clearing-house city of its own district.
18	19 to 25	Failure to redeem any circulating notes in gold an act of insolvency, and bank is immediately put in liquidation.
18	5 to 10	Can not be paid out "over the counter" of <i>all</i> banks outside its district, unless there is a redemption agency in <i>all</i> redemption districts.
18	11 to 18	Shall keep an amount in "gold coin" in the Issue and Redemption Department as a "guarantee fund" equal to 5 per cent of its currency notes "not returned to the Comptroller."
23	17 to 21	
18	19 to 25	"Guarantee fund" used to redeem currency notes in case of insolvency.
19	10 to 12	Surplus over amount received on sale of bonds over that necessary to pay "bank notes" to be applied to the redemption of "currency notes" in case of insolvency.
20	1 to 5	Destroyed when redeemed in case of insolvency.
22	13 to 23	SHALL be currently redeemed in gold (as "circulating notes") at SUBTREASURIES in sums of \$1,000 for all notes. (See page 21, lines 14 to 20.)
23	6 to 8	Can not count its 5 per cent gold "guarantee" fund in its reserve.
23	9 to 17	
23		Six per cent tax per annum on "currency notes" exceeding 40 per cent to capital or plus bank notes exceeding 80 per cent to capital.
23	18 to 21	Tax on all the last 20 per cent of 60 per cent capital of currency notes to capital not returned to the Comptroller or "gold coin" deposited with Comptroller for their retirement.
23	22 to 25	} Tax on currency notes collected each month.
24	1 to 6	
25	13 to 20	Deposit of gold coin required equal to its "currency notes" in circulation, in case of insolvency.

"CIRCULATING NOTES."

(USED FOURTEEN TIMES.)

- | | | |
|---|----|---|
| 3 | 5 | Means "reserve notes," "bank notes," and "currency notes." |
| 3 | 16 | Means "reserve notes," "bank notes," and "currency notes." |
| 8 | 16 | The words "circulating notes" defined as including "reserve notes," "bank notes," and "currency notes." |

Page.	Line.	
9	2 to 8	Sums of greenbacks and currency aggregating \$500, or aggregating 1 per cent to capital, of any association to be redeemed.
9	9 to 11	Shall redeem in "LAWFUL MONEY" its "greenbacks" and currency at its own banking house, and also at an agency appointed by the Comptroller in some "reserve city."
10	14 to 17	Banks to maintain parity or be subject to penalty tax.
11	1 to 11	Not to be issued in denominations less than \$3.
21	3 to 17	Taxed not more than one-fifth of 1 per cent per annum when there is \$8,000,000 in the Treasury, accumulated for this tax and in no case over 1 per cent per annum, at the discretion of the Secretary of the Treasury.
26	18 to 21	The 5 per cent redemption fund to currency to be returned to associations in case of insolvency.
26	22 to 25	In case of insolvency, currency to be immediately redeemed and canceled by United States Treasurer.

"CIRCULATING NOTE."

(USED FOUR TIMES.)

3	4	Means "greenback."
3	10	Means "greenback."
9	6	Means "greenbacks" and "currency."
14	23	Means "greenbacks" and "currency."

Page.	Line.	
9	2	Means "bank notes" received upon deposit of United States bonds.
10	19	Means "bank notes" in circulation when the act shall be passed.
12	10	Means "reserve notes," "bank notes," and "currency notes."
14	20	Means "reserve notes," "bank notes," and "currency notes." (When bonds are withdrawn "bank notes" are necessarily retired by the amount of bonds withdrawn, as "bank notes" are described as bond-secured notes. (See page 9, lines 1 to 3.) To keep up the amount of "circulating notes" the vacuum caused by the withdrawal of "bank notes" must be supplied, if at all, by taking out one-half "reserve notes" and one-half "currency notes," as provided in page 11, lines 10 to 24, subject to the provision on page 17, lines 1 to 4.)
17	3	Means "bank notes" and "currency notes" which must supply the place of the withdrawn "reserve notes," one-half of each, as provided on page 11, lines 10 to 24, subject to page 14, lines 18 to 21.
15	12	Means "reserve notes," "bank notes," and "currency notes" (and that the depositing of United States notes and the securing "reserve notes," as provided on page 11, lines 10 to 24, is a "basis" or condition precedent to securing either "bank notes" or "currency notes," and continues for all time, excepting as modified on page 16, lines 15 to 25, and page 17, lines 1 to 4).
17	3	Means "reserve notes," "bank notes," and "currency notes."
17	17	Means "reserve notes," "bank notes," and "currency notes."
18	24	Means "reserve notes," "bank notes," and "currency notes."
21	17	Means the present bank notes secured by bonds.
22	12	Means "reserve notes," "bank notes," and "currency notes."
29	9	Means "reserve notes," "bank notes," and "currency notes."

SPECIAL FUNDS TO BE HELD IN TREASURY.

- A RESERVE FUND.
- A REDEMPTION FUND.
- A GUARANTEE FUND.

- 2 23 to 25 Issue and Redemption Department "shall redeem the cir-
- 3 1 to 12 culating notes of banking associations," shall hold all "redemption funds" and all "guarantee funds" of banks.
- 3 23 to 15 To the Issue and Redemption Department shall be com-
- 4 1 to 6 mitted \$137,500,000 gold to redeem United States notes and Treasury notes. (Amount to be "kept" in this fund decided by the Secretary of the Treasury. Page 4, lines 11 to 18.)

Page. Line.

SPECIAL FUNDS TO BE HELD IN TREASURY.

ONLY A CURRENT REDEMPTION FUND.

- 4 16 to 18 Equal to 5 per cent of currency, it averages to keep in circulation held as a common "current redemption fund" for the current redemption of "greenbacks" and "currency."
- 5 14 to 18 Equal to 5 per cent of greenbacks, held as a common "current redemption fund" for the current redemption of "greenbacks" and "currency."

Page. Line.

- 17 12 to 17 Issue and Redemption Department may return to banks any excess in the Guarantee Fund or Redemption Funds.
- 21 6 to 13 Issue and Redemption Department to add to Guarantee Fund and to Redemption Funds all receipts from investments of such funds and all taxes on circulation. (See page 17, lines 12 to 17.)
- 21 14 to 20 Gives Issue and Redemption Division a *basis for estimating the redemption fund of each bank*, viz, equal to 5 per cent of "bank notes" and 5 per cent of "reserve notes."

CANCELING UNITED STATES NOTES AND TREASURY NOTES.

- 6 24, 25 Issue and Redemption Department shall cancel an amount
- 7 1 to 4 of United States notes or Treasury notes, that gold coin has been exchanged for, as shall not exceed the amount of national "reserve notes" issued subsequent to the taking effect of this act.*
- 7 5 to 12 Secretary of the Treasury may in his discretion from any fund in the general Treasury not otherwise appropriated, transfer to the Department of Issue and Redemption any United States notes or Treasury notes WHICH on such transfer COULD THEN LAWFULLY BE CANCELED * * * IF THEY HAD BEEN REDEEMED ON PRESENTATION; and when so transferred the same shall be canceled.
- 10 5 to 7 United States notes received in Issue and Redemption Department for "reserve notes" shall be canceled as received.
- 7 13 to 19 Whenever there may be United States notes including Treasury notes in the general Treasury NOT AVAILABLE as "surplus revenue" they may be exchanged with the Department of Issue and Redemption for "gold coin" and such notes SHALL THEREUPON BE CANCELED.
- 7 20 to 24 United States notes including Treasury notes once redeemed shall not be paid out except for gold.
- 7 25 United States notes or Treasury notes accumulated in the
- 8 1 to 7 Department of Issue and Redemption may be invested by the SECRETARY OF THE TREASURY in interest-bearing obligations of the Government for the benefit of the gold reserve in the Department of Issue and Redemption subject to sale by the SECRETARY OF THE TREASURY.

* Paying out gold coin in exchange for United States notes and Treasury notes is "redeeming them on presentation."

Page. Line.

CANCELING OF UNITED STATES NOTES.

- 5 6 to 14 95 per cent of moneys paid into the United States Treasury "for greenbacks" to be used to redeem and cancel a like amount of old issue of United States notes to a certain amount.
- 5 19 to 24 After a certain amount of United States notes have been
6 1 changed into greenbacks [say \$200,000,000], the United States Treasurer to set aside certain gold in the Treasury equal in amount to the old issue of United States notes then outstanding as a "*special fund*" to redeem and cancel such notes—[viz, \$146,000,000].
-

Page. Line.

SECRETARY OF THE TREASURY.

- 3 13 to 14 Subsidiary and minor coins (transferred to Issue and Redemption Department) as "SHALL consider necessary," etc. (See 15 and 14.)
- 4 11 to 18 SHALL maintain the (25 per cent and 5 per cent) gold reserve for United States notes and Treasury notes and silver dollars in the Issue and Redemption Department "at such sum as shall secure the CERTAIN AND IMMEDIATE REDEMPTION OF ALL NOTES and all silver dollars," etc.
May transfer to Issue and Redemption Department ANY funds in the Treasury, not otherwise appropriated, in excess of \$50,000,000.
- 4 18, 19 SHALL reserve a \$50,000,000 [PANIC FUND] in Treasury.
- 4 20 to 25 May (shall) "ISSUE AND SELL FOR GOLD coin and
- 5 1, 2 "REDEEMABLE IN GOLD COIN" 3 PER CENT ONE-YEAR—FIVE YEARS certificates to maintain the reserve in Issue and Redemption Department.
- 5 3 to 7 Authorized to exchange gold coin with Issue and Redemption Department for United States notes or Treasury notes.
- 5 7 to 13 Authorized to exchange with Issue and Redemption Department one denomination of notes for other denominations, and one kind of notes for other kinds.
- 7 5 to 25 * May transfer to Issue and Redemption Department, from any unappropriated funds in "THE GENERAL TREASURY," UNITED STATES OR TREASURY NOTES, WHICH, ON SUCH TRANSFER, COULD THEN BE LAWFULLY CANCELED UNDER THE ACT, IF THEY HAD BEEN REDEEMED ON PRESENTATION, and THEY SHALL BE CANCELED. (Annul all restrictions other than reserve notes issued.)
- 8 1 to 7
- 16 15 to 23 To use funds available as "surplus revenue" to transfer to Issue and Redemption Department (to cancel United States notes, Treasury notes, or "reserve notes").

* Comptrollers are made simply clerks.

Page. Line.

SECRETARY OF THE TREASURY.

- 3 16 to 19 May issue such United States legal-tender notes as are prescribed in the bill.
- 8 5 to 11 May approve of action of Comptroller in allowing banks to reduce their holdings of "greenbacks."
- 9 12 to 20 May approve deposits of "current redemption funds" in certain places, in the devolving the duties of "current redemption" upon reserve banks or other suitable agents.
- 12 4 to 8 In case of doubt as to what persons can act on "Board of Advisers to the Comptroller," the Secretary of the Treasury to decide.
- 12 9 to 14 In case of an appeal from the decision of the Comptroller to the Board of Advisers, and the decision of the board is not unanimous, in such case the decision of the Secretary of the Treasury to be binding and final.
- 14 23, 24 May designate clearing houses as fiscal agents or depositories of public moneys.
- 15 7 to 14 May direct the Treasurer or any assistant treasurer of the United States to accept from banks for "safe keeping" any kind of money or bonds.
- 16 21 to 24 To approve action of Comptroller in issuing emergency greenbacks to clearing houses or banks
- 17 1 to 16 *Also*, approve of the bonds deposited as security for such notes.
- 18 16 to 22 To publish in the "STATEMENT OF THE CONDITION OF THE UNITED STATES TREASURY AND ITS RECEIPTS AND EXPENDITURES" a list of securities accepted to secure emergency greenbacks or deposit of public moneys.
- 18 23 to 25 May issue and sell, "to carry into effect the provisions of the act of January 14, 1875, entitled 'An Act to provide for the resumption of specie payments,' and of this act FOR THE PERIOD OF FOUR YEARS BONDS DESCRIBED in the Act of July 14, 1870, entitled 'An Act to authorize the funding of the national debt,'" 1-3 year bonds, 3-7 year bonds, and bonds due on a day certain to run not exceeding three years.
- 21 3 to 12 To decide on the amount of the tax associations shall pay on the average circulation of their "currency," but in no case over one-fifth of 1 per cent per annum.
- 21 12 to 17 One-fifth of 1 per cent when \$8,000,000 are accumulated
- 22 1 to 3 from such tax, and not over 1 per cent per annum in any case.
-

Page. Line.

TREASURER OF THE UNITED STATES.

- 2 12 to 18 First Comptroller to be (practically) an assistant treasurer.
9 20 to 24 Deposit with the Treasurer United States notes and
10 1 to 4 receive from Comptroller "reserve notes." [Why not
deposit with the Comptrollers?]
10 8, 9 Deposit with Treasurer United States bonds and receive
10 14 to 17 from Comptroller "bank notes" of Issue and Redemption
Department.
22 12 to 23 To currently redeem "circulating notes" in gold coin at
subtreasuries [conflicts with page 3, lines 17 to 19, or
there must be an Issue and Redemption Department in
every subtreasury.]
24 14 to 20 Receive annual taxes of one-fourth of 1 per cent on fran-
chise.
24 24, 25 Hold taxes on franchise as a separate fund to pay expenses
25 1 to 3 of Comptroller.
-

Page. Line.

TREASURER OF THE UNITED STATES.

- 5 6 to 14 Shall destroy an amount of existing United States NOTES equal to 95 per cent of amount paid in to take out greenbacks.
- 5 14 to 18 Shall set aside 5 per cent of such amount as a common redemption fund for "greenbacks" and "currency."
- 5 19 to 24 To set aside "CERTAIN GOLD" in Treasury [in a certain case, viz, when \$200,000,000 old United States notes have been canceled and new greenbacks issued to banks equal in amount to outstanding United States notes] as a "SPECIAL DEPOSIT" to redeem and cancel the balance of United States notes (\$146,000,000).
- 6 1
- 6 9 to 15 To hold all moneys paid in for greenbacks after the "transition period" from the present law to the new law, as a SEPARATE FUND.
- 6 16, 17 To be used to equitably adjust the holdings of the green-
- 7 1 to 6 backs among all commercial banking associations.
- 7 7 to 11 SHALL first reduce the holding of those associations holding the largest amount of greenbacks in proportion to their capital.
- 7 11 to 15 May require banks to increase their greenbacks to legal requirements.
- 7 16 to 21 SHALL reduce the amount associations are required to take below 12½ per cent when necessary to keep the total amount of greenbacks to a fixed amount [viz, \$200,000,000].
- 7 22 to 25 The balance of the "special gold fund" remaining two years after being set aside shall be free money in the Treasury.
- 8 5 to 11 In case of expiration of charter or insolvency shall redeem greenbacks by order of the Secretary of the Treasury.
- 8 18 to 25 To keep AT ALL TIMES "IN LAWFUL MONEY" the 5 per cent "greenback" and 5 per cent "currency" current redemption fund.
- 9 12 to 20 May keep "current redemption funds" in any reserve bank or with any suitable agent approved of by the Secretary of the Treasury.
- May devolve duties as to the current redemption of circulating notes on any reserve bank or any other suitable agent.
- 10 18 to 24 To issue no more silver, gold, or currency certificates, and to cancel all now existing as they are paid in to the Treasury.
- 15 7 to 14 Treasurer or Assistant Treasurers to receive for "safe-keeping" any bonds or moneys from any bank or clearing house upon the approval of the Secretary of the Treasury.
- 16 21 to 24 To issue emergency greenbacks upon bond security by
- 17 1 to 21 direction of the Secretary of the Treasury.
- 18 1 to 7
- 19 15 to 20 To receive taxes.
- 21 3 to 12
- 24 15 to 17
- 25 1 to 6 To keep separate accounts of moneys received and paid out under each section of the act.

Page. Line.

GENERAL PROVISIONS.

- 24 14 to 20 Franchise tax of one-fourth of 1 per cent per annum.
- 25 21 to 24 In places of 50,000 inhabitants or over, banks shall not be
- 26 1 to 11 organized with less than \$250,000 capital.
In places of over 6,000 and under 50,000 people, not less
than \$100,000 capital.
In places of over 3,000 and under 6,000 people, not less
than \$50,000 capital.
In places of less than 3,000 people, not less than \$25,000
capital.
- 26 12 to 15 Banks may establish branches, etc.
- 27 9 to 13 Examiners to have fixed salaries.
- 27 14 to 25 Concerning examiners.
- 28 1 to 3
- 29 4 to 11 Comptroller shall dissolve all national banking associa-
tions that *fail to comply* within one year *with ANY*
SINGLE provision of this act.
- 31 16 to 18 Repealing sections.

Page. Line.

GENERAL PROVISIONS.

- 2 11 to 14 \$25,000 banks in places of less than 4,000 inhabitants.
- 2 15 to 20 Capital means "PAID IN CAPITAL, SURPLUS, AND UNDIVIDED PROFITS."
- 9 21 to 24 After transition is completed banks SHALL KEEP their
- 10 1 to 3 "cash reserve," as nearly as may be, in equal parts of gold coin, silver coin, and "greenbacks of other banks."
- 19 15 to 20 Any average deficiency in the average total reserve a bank is required to keep, for any month, is taxed at the rate of 6 per cent per annum.
- 22 4 to 25 Tax imposed on the deposits of all "commercial banks"
- 23 1 to 11 that fail to organize under the act, or fail to assume their share of greenbacks, of one-tenth of 1 per cent per annum (that they may be induced to assume their fair share of the obligation of maintaining parity).
- 23 12 to 20 All commercial banking associations other than national
- 24 1, 2 banks, assuming greenbacks, are to make reports to the Comptroller and be examined by national bank examiners.
- 24 3 to 14 Associations may require from depositors thirty days' notice of intention to withdraw "deposits" upon which interest is paid for more than seven days, but this does not apply to "that part of the reserves of banks which they are allowed to deposit in other banks."
- 24 15 to 17 Section 13 goes into effect the first day of the calendar quarter next succeeding the four months next succeeding the passage of the act.
- 24 18 to 24 All taxes imposed are due and payable on April 1 and October 1.
- 25 1 to 6 All moneys collected under the act to be paid into the Treasury as a "miscellaneous receipt." Treasurer to keep separate account of all moneys received and all moneys paid out under each section of this act.
- 27 22 to 24 Bank examiners are employees of the Department of the
- 28 1, 2 Comptroller.

**EXPENSES, ETC., OF BANKS IN CENTRAL RESERVE CITIES
COMPARED WITH BANKS IN TEN SMALL TOWNS AS TO
ITEMS OF BANK FUNDS AND AS TO PERCENTAGE OF
EXPENDITURES TO VARIOUS FUNDS, ETC.**

CENTRAL RESERVE CITIES.

Paid-in capital.....	\$76, 700, 000. 00
Surplus and other profits.....	73, 096, 619. 89
Actual capital	149, 796, 619. 89
Deposits.....	645, 633, 468. 73
Circulation	18, 652, 022. 50
Total.....	814, 082, 111. 12
Annual expenses and taxes.....	12, 640, 059. 13
Minimum United States bonds required.....	3, 650, 000. 00
	Per cent.
Per cent of expenses to paid-in capital.....	16. 48
Per cent of expenses to actual capital.....	8. 44
Per cent of expenses to bank funds.....	1. 55
Percentage of bonds to paid-in capital.....	4. 76
Percentage of bonds to actual capital.....	2. 44
Percentage of bonds to bank funds.....	0. 45

TEN SMALL TOWNS.

Paid-in capital.....	\$930, 000. 00
Surplus and other profits.....	543, 000. 00
Actual capital	1, 473, 000. 00
Deposits.....	1, 914, 829. 78
Circulation	460, 580. 00
Total.....	3, 848, 409. 00
Annual expenses and taxes.....	65, 424. 00
Minimum United States bonds required	232, 500. 00
	Per cent.
Per cent of expenses to paid-in capital.....	7. 04
Per cent of expenses to actual capital.....	4. 44
Per cent of expenses to bank funds.....	1. 61
Percentage of bonds to paid-in capital.....	25. 0
Percentage of bonds to actual capital.....	15. 78
Percentage of bonds to bank funds.....	6. 04

TREASURY DEPARTMENT,
OFFICE OF THE COMPTROLLER OF THE CURRENCY,
Washington, D. C., August 22, 1898.

Hon. J. H. WALKER,
Chairman Committee on Banking and Currency:

Statement showing the amount of expenses and taxes paid by the national banks located in the central reserve cities of New York, Chicago, and St. Louis, as shown by the semi-annual reports of earnings and dividends as made to the Comptroller of the Currency for the year ending September 1, 1897.

SEPTEMBER 1, 1896, TO MARCH 1, 1897.

Expenses and taxes.

New York City	\$4, 885, 142. 08	
Chicago	1, 185, 791. 88	
St. Louis	477, 888. 58	
		\$6, 548, 822. 54

MARCH 1, 1897, TO SEPTEMBER 1, 1897.

Expenses and taxes.

New York City	\$4, 515, 296. 63	
Chicago	1, 183, 892. 26	
St. Louis	392, 047. 70	
		\$6, 091, 236. 59

Total for year ending September 1, 1897 12, 640, 059. 13

TREASURY DEPARTMENT,
OFFICE OF THE COMPTROLLER OF THE CURRENCY,
Washington, D. C., July 29, 1898.

Hon. J. H. WALKER,
New Hampton, N. H.

SIR: In compliance with your request of July 26, I inclose herewith a statement showing the expenses and taxes, during six months, of ten banks, "located in the smallest places in which there is a single bank, having capital, surplus, and undivided profits of, approximately, \$145,000 to \$155,000."

Very respectfully,

CHARLES G. DAWES, *Comptroller.*

Actual average capital	\$147, 300. 00
Average annual expenses	6, 542. 40

State.	Bank.	Popula- tion.	Capital.	Surplus and profits.	Expenses and taxes last six months.	Individual deposits, report of 1896.
Delaware	Milford First National Bank ..	1, 300	\$60, 000	\$66, 000	\$2, 966	\$307, 254. 81
Indiana	Rising Sun, National Bank of ..	1, 800	100, 000	42, 000	3, 091	84, 075. 55
Massachusetts ..	Natick, National Bank of	1, 000	100, 000	42, 000	4, 401	\$23, 616. 47
New Jersey	Medford, Burlington County ..	1, 000	100, 000	46, 000	1, 776	103, 701. 19
New York	New Paltz, Huguenot National Bank.	1, 200	100, 000	41, 000	4, 016	163, 510. 56
Do	Pine Plains, Stissing National Bank.	700	90, 000	52, 000	2, 608	109, 845. 70
Do	Warwick First National Bank.	1, 700	100, 000	50, 000	3, 655	176, 276. 32
Pennsylvania	Ambler First National Bank ..	1, 100	100, 000	55, 000	3, 988	220, 864. 02
Do	Burgettstown, Burgettstown National Bank.	1, 000	80, 000	74, 000	2, 350	225, 599. 50
Do	Kennett Square, National Bank of.	1, 500	100, 000	45, 000	3, 771	200, 085. 08
	Total		\$80, 000	543, 000	32, 712	1, 914, 529. 78

THE CLEARING HOUSES IN THE COUNTRY.

[Statement prepared by the chairman of the committee.]

The clearing house has become indispensable to the conduct of the business of banking. Each bank, large or small, country or city, is indissolubly connected with other banks, and through them, if not directly, with the clearing house. The efficiency of a bank is very largely dependent upon the clearing house. Only through clearing houses can the equality and independence of banks be preserved or their highest efficiency attained.

It is as necessary to banks to have incorporated clearing houses as it is to business firms and corporations to have incorporated banks. The incorporation of neither is absolutely necessary. In fact, a large part of banking is done by private firms, but only by reason of the existence of banking "corporations" are they successful. All the banking of the world, or of the country, could not be done outside of the obligations and responsibility imposed in fixed legal rules and the control of banks by positive corporation law. Whatever may be the appearances to the contrary, a bank can not exist by itself alone in this stage of commercial development, like a cotton or woolen factory, which is all the more reason for uniform regulation and control of banks by law.

Of seventy-six clearing houses given on page 551 of volume 1, Report of the Comptroller of the Currency for 1897, I have examined the constitution and by-laws of fifty-five at hand, and herein indicate the main provisions of all taken together. I see no reason why each one of these clearing houses could not continue, if incorporated under the Walker bill (H. R. 10333), the doing of its business in such manner as it has chosen for itself and without any substantial alteration of its constitution or by-laws. Of course, the advantages of a broader field and the security of more definite rules, by many of them, are so obvious, it is believed they would soon enter upon a broader and at the same time equally conservative action. There are no substantial provisions in the regulations of any of the fifty-five examined not given under the name of some one of them. None contains any substantial provisions not enumerated under the name of some one of those mentioned. Some forbid what others require, according to the volume or kind of business they do.

ST. LOUIS, MISSOURI.

Article 1, section 1. "The object of the association shall be the effecting, at one place, of the daily exchanges between the several associated banks and bankers, * * * and the fostering and promoting of sound conservative banking; * * * the regulating of exchanges, the fixing of minimum rates to be charged on outside drafts and collections," etc.

Section 3. The committee of management shall have power to suspend any bank by unanimous vote * * * but shall forthwith call a meeting of the association to consider such suspension, etc.

Section 8. The action of the clearing house is only that of an agent, and in no case shall this association be held responsible for any loss that may occur by reason of its action.

Section 11. Whenever any member of the association shall send and receive through the clearing house the exchanges of any bank in the city or vicinity who are not members, such sending and receiving shall ipso facto and without further notice constitute said member the agent for said bank at the clearing house, etc.

Section 13. A standing committee of five bank officers or bankers shall be elected, to be called a committee of arbitration, whose duty it shall be to hear and determine all disputes that may be submitted to it by both parties thereto. * * * A majority decision shall be valid.

Section 15. No member shall be added to this association having a paid-up capital of less than \$500,000.

Section 17. Shall pay an entrance fee of \$1,000 and in addition its several assessments for expenses.

Article 2, section 1. Each member of the association shall furnish the manager a sworn statement of its condition as often as five times each year * * * and at such other times and of such date as the clearing-house committee may require. * * *

The following shall be regarded as cash reserve, viz:

- Balances due from other banks payable on sight draft,
- Silver,
- Gold,
- Legal tenders,
- National-bank notes,
- Gold and silver certificates,
- Amount due United States Treasurer,
- Clearing-house loan certificates.

Section 2. Upon a vote of four-fifths of the members of this association a committee of five shall be elected by the association, who may receive from banks, members of the association, bills receivable and other securities to be approved by it, and shall be authorized to issue therefor to such depositing bank loan certificates to an amount not to exceed 75 per cent of the face value of the securities or bills receivable so deposited, etc.

ROCHESTER, NEW YORK.

Section 24. No member of this association shall clear for any other institution or banking firm not a member.

BUFFALO, NEW YORK.

Section 7. Any bank, after one day's notice of a hearing before the association, may be expelled from the association and debarred from all the privileges of the clearing house by a four-fifths vote of the whole number of associated banks.

Section 8. The clearing-house committee, acting in concurrence with the arbitration committee, may cause an examination to be made of any bank member of the association * * * and shall have power to suspend any bank, etc.

Section 19. Balances shall be paid in—

- United States Treasury certificates.
- United States legal-tender notes.
- National-bank notes.
- Gold coin.
- Gold certificates.
- Silver certificates.

Section 25. This association shall receive * * * on special trust such United States gold coin as any member * * * may choose to send to it for safe-keeping, for clearing-house purposes; * * * certificates in exchange for such coin shall be issued to the depositing bank in denominations of \$5,000, etc., * * * negotiable only among banks, members of the association, etc.

Section 26. Each bank member of the clearing-house association shall furnish the manager a weekly statement of its condition, signed by its officers, on uniform blanks provided by the association, * * * for the private use of each member, showing the average amount of—

1. Loans and discounts.
2. Deposits.
3. Due from banks.
4. Checks for next day's exchanges.
5. Clearing-house gold certificates.
6. All other currency.
7. Rediscounts.

BALTIMORE, MARYLAND.

Section 5. The executive committee are authorized to take into consideration and investigate any and all matters affecting and pertaining to the banking interests of the city which may be referred to them in writing by this association or any member thereof; to report to the association such recommendation in the case as they may deem wise and proper. Whenever they consider it for the interests of the association they are empowered to require from any member securities of such an amount and character as they deem sufficient for the protection of the balances resulting from exchanges at the clearing house. State banks, members of the clearing-house association, shall be examined in the same manner as national banks and by the national-bank examiner, etc.

Section 6. Be a depository of such moneys as any associated bank may desire, shall remain a special deposit for safe-keeping, and issue therefor certificates in concurrent amounts, etc.

Section 7. The compensation to the depositing bank shall be paid by the several banks in proportion to their respective capitals, at the rate of 30 cents per annum on each \$1,000 of capital stock.

SAN FRANCISCO, CALIFORNIA.

Article 14. The debtor banks shall pay to the manager at the clearing house in

Gold coin,
Clearing-house certificates it has issued, or
Gold certificates.

CHICAGO, ILLINOIS.

Section 20. All moneys paid in shall be in

Gold coin,
Legal-tender notes,
Treasury certificates,
National-bank notes,
Its own clearing-house certificates.

WASHINGTON, DISTRICT OF COLUMBIA.

Article 16. The clearing-house committee shall have full power and authority at any time to direct an examination, by any three of its members, into the affairs and condition of any member * * * for the use and information of the other members of the association, but to be otherwise confidential.

LEXINGTON, KENTUCKY.

Article 11. No money shall pass through the clearing house in making the exchanges. [Persons unfamiliar with banking will find such "clearings" are fully described in a monograph on Money, Trade, and Banking, by J. H. Walker: Houghton, Mifflin & Co., Boston.]

SALT LAKE CITY, UTAH.

Article 3. The members are:

Wells, Fargo & Co.,
The Deseret National Bank,
W. S. McCormick & Co.,
T. R. Jones & Co.,
The Union National Bank,
The Commercial National Bank,
Utah Commercial and Savings Bank,
State Bank of Utah,
National Bank of the Republic,
Bank of Commerce,
Utah National Bank.

FORT WORTH, TEXAS.

Section 8. Debtor banks shall pay to the manager of the clearing house the balances due from them either in
Gold coin,
United States notes, or
National-bank bills.

KNOXVILLE, TENNESSEE.

Section 17. Applications for membership must state, if a bank, its capital; if a private banking house, names of individual partners, name of person authorized to sign, etc.

NORFOLK, VIRGINIA.

Section 12. The balances due the clearing house shall be paid in
Currency or
Gold coin,

and shall be put up in packages of \$500, etc.

Section 13. The executive committee shall require from each member of the association securities of such amount and character as said committee may deem sufficient for the protection of balances resulting, etc., or other satisfactory guaranties.

Section 15. Be a depository to receive in special trust such currency as any of the members may choose to send to it for safe keeping.

DAYTON, OHIO.

Section 14. The expenses of the clearing house shall be paid equally by each member of the association.

PORTLAND, MAINE.

Article 13. The debtor banks shall pay to the manager of the clearing house in

Gold coin, or in its own
Clearing-house certificates,
the balances due, etc.

Article 15. Gold coin of the quantities of \$20,000, \$10,000, and \$5,000, for the payment of balances, shall be brought in sealed bags, etc.

Article 17. Clearing-house certificates payable in
Gold coin.

WILMINGTON, DELAWARE.

Section 9. The character of the funds to be used in payment of balances to or from the clearing house will be Philadelphia or New York exchange, excepting for amounts less than \$1,000, which may be in currency, at the option of the payers.

SYRACUSE, NEW YORK.

Article 3, section 2. Private bankers * * * may be admitted to membership by a two-thirds vote.

LOUISVILLE, KENTUCKY.

Article 10. Each member of the association shall furnish the manager, on the first Monday of each month, a statement in tabular form of the averages for the month previous of its

Capital,
Surplus,
Loans,
Cash on hand,
Eastern exchange,
Due from banks other than Eastern,
Bills payable,
Rediscounts,
Deposits,

which shall be open to the principal officers of any member.

KANSAS CITY.

Section 7. May examine any bank belonging to the clearing house and require any and all members to deposit * * * securities of such an amount and character as shall be satisfactory to the clearing house for the purpose of securing any debt balance that may occur in the adjustment of clearances against the member making such deposit, etc. * * * Shall receive bills receivable and other securities * * * and issue therefor * * * loan certificates to an amount not exceeding 85 per cent, etc.

Section 15. For cause deemed sufficient by the associated banks, any bank may be expelled from the association and debarred from all the privileges of the clearing house, by a majority vote, at any meeting of the association.

By-laws, section 11. Each member of the association shall furnish as often as five times a year a sworn statement of its condition, * * * and at such other times and of such dates as the clearing house may require, * * * open to the inspection of members only.

NEW YORK, NEW YORK.

Section 2. Acts as an agent only.

Section 8. May examine any bank member of the association. May require security of such amount and character, etc.

Section 16. Every bank member shall furnish a weekly statement of its condition, etc., for publication, showing the average amount of—

1. Loans and discounts.
2. Specie.
3. Legal-tender notes.
4. Circulation.
5. Deposits.

Section 17. May receive by an appointed bank in special trust
Coin or

United States legal-tender notes

from any association for safe-keeping, or may appoint the assistant treasurer of the United States at New York a depository, etc.; certificates to be issued in exchange for such deposit, negotiable among members only.

Section 21. Standing committee may suspend any bank, but must immediately call a meeting of the association to act on the case, etc.

Page 11, resolution of April 8, 1872. That the clearing-house committee be, and is hereby, directed, whenever it appears, in its judgment, that legal-tender notes have been withdrawn from use through the agency of any bank, member of the association, to make an immediate examination of the bank in question, and should there appear to be complicity on the part of the bank or its officers, to suspend said bank from the clearing house until action of the association shall be taken thereon.

Page 13. Adopted February 14, 1872.

1. The New York Clearing House Association or any members thereof may unite for the purpose of clearing checks payable in gold.

6. The adoption of this system shall not prohibit any bank from presenting gold checks for payment to the banks on which they are drawn, etc.

H. R. 7879.—FIFTY-FIFTH CONGRESS, SECOND SESSION.

IN THE HOUSE OF REPRESENTATIVES.

FEBRUARY 8, 1898.—*Mr. Brosius introduced the following bill; which was referred to the Committee on Banking and Currency and ordered to be printed.*

A Bill To increase the circulation of national banks.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That upon deposits by national banking associations of United States bonds, bearing interest, as provided by law under the provisions of sections fifty-one hundred and fifty-nine and fifty-one and sixty of the Revised Statutes, such associations shall be entitled to receive from the Comptroller of the Currency circulating notes of different denominations in blank, registered and countersigned as provided by existing law, equal in face value to the full par value of the bonds so deposited; and national banking associations now having bonds on deposit for the security of circulating notes less in face value than the par value of the bonds, or which may hereafter have such bonds on deposit, shall be entitled, upon due application to the Comptroller of the Currency, to receive additional circulating notes in blank to an amount which will increase the aggregate value of the circulating notes held by such association to the par value of the bonds deposited, such additional notes to be held and treated in the same way as circulating notes of national banking associations heretofore issued, and subject to all the provisions of existing law affecting such notes: *Provided*, That nothing herein contained shall be construed to modify or repeal the provisions of section fifty-one hundred and sixty-seven and fifty-one hundred and seventy-one of the Revised Statutes, authorizing the Comptroller of the Currency to require additional deposits of bonds or of lawful money in case the market value of the bonds held to secure the circulating notes shall fall below the par value of the circulating notes outstanding for which such bonds may be deposited as security.

SEC. 2. That every national banking association shall pay to the Treasurer of the United States each half year, in the months of January and July, on or before the thirtieth day thereof, a duty of one-eighth of one per centum upon the value of its franchise as measured by the aggregate amount of its capital, surplus, and undivided profits upon the last day of the calendar month next preceding. Sections fifty-two hundred and fourteen, fifty-two hundred and fifteen, fifty-two hundred and sixteen, and fifty-two hundred and seventeen of the Revised Statutes of the United States are hereby repealed. But nothing in this section contained shall be so construed as in any manner to release any national banking association from any liability for taxes or penalties incurred prior to the passage of this Act.

SEC. 3. That section fifty-one hundred and thirty-eight of the Revised Statutes is hereby so amended as to read as follows:

“SEC. 5138. No association shall be organized with a less capital than one hundred thousand dollars; except that banks with a capital of not less than fifty thousand dollars may, with the approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed six thousand inhabitants, and except that banks with a capital of not less than twenty-five thousand dollars may, with the

approval of the Secretary of the Treasury, be organized in any place the population of which does not exceed two thousand inhabitants. No association shall be organized in a city the population of which exceeds fifty thousand persons with a capital of less than two hundred thousand dollars."

SEC. 4. That all acts and parts of acts inconsistent with the provisions of this Act are hereby repealed.

H. REPORT 1883, FIFTY-FIFTH CONGRESS, THIRD SESSION.

CIRCULATION OF NATIONAL BANKS.

FEBRUARY 1, 1899.—Committed to the Committee of the Whole House on the state of the Union and ordered to be printed.

Mr. VAN VOORHIS, from the Committee on Banking and Currency, submitted the following

REPORT.

[To accompany H. R. 7879.]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 7879) to increase the circulation of national banks, having duly considered the same, respectfully report as follows:

Existing law authorizes national banks to issue circulation to the amount of 90 per cent of the par value of the bonds deposited with the Treasurer of the United States to secure circulation. By this bill it is proposed to amend existing law so as to authorize national banks to issue circulation to the par value of the bonds deposited to secure the same.

On the 30th day of January, 1899, there was deposited to secure national-bank circulation United States bonds amounting to \$236,445,840. The circulation possible under existing law on the bonds so deposited amounts to \$212,801,256. The circulation possible under a law permitting an issue up to the par of the bonds would be \$236,445,840, an increase over that of existing law of \$23,644,584.

The wisdom of amending the law so as to provide for this increased circulation does not seem to the committee to admit of doubt. There are no United States bonds now out excepting the 2 per cent bonds which are not selling in the market at a considerable premium, and therefore no possible loss could occur to the note holder by the amendment proposed, even if there was no other recourse; but when we consider that the note holders have a first lien upon all the assets of the bank in addition to the security of the bonds deposited, there can exist in no case the possibility of loss.

Under existing law the banks are deprived of a portion of their available capital for loaning purposes, and to that extent accommodations to business are withheld which otherwise might be available. It seems clear that when the banks find so little profit in their circulation as now limited that it scarcely pays to take it out, there ought to be an enlargement of their rights to issue notes so as to afford an inducement to furnish as large a measure of accommodation to the community as is compatible with entire safety to note holders.

The issuing of circulating notes to the par value of bonds deposited to secure the same is recommended by the Comptroller of the Currency, and has been heretofore recommended by every comptroller from the time of and including Comptroller Knox.

The committee is of opinion that if this bill becomes a law there will be an increase in the amount of circulation issued when the demands of business require it, and thus a distinct benefit will come both to the banks and to the community, without in the slightest degree endangering note holders.

Under existing law the only tax assessed against national banks is a tax of 1 per cent on circulation. The Comptroller of the Currency has recommended from time to time that the law assessing the tax upon circulation should be repealed, for the reason that with this additional burden there was little or no profit to the banks in issuing notes. By this bill it is proposed to amend existing law so that the tax on national banks shall be assessed upon the franchise of the banks measured by their capital, surplus, and undivided profits. A tax of one-eighth of 1 per cent each six months will realize to the Government somewhat more than the present tax on circulation, and will be equally distributed. The tax of 1 per cent on circulation outstanding January 30, 1899, would amount to \$2,111,289. The tax assessed by this proposed amendment on capital, surplus, and undivided profits, as shown by bank statement of December 1, 1898, would amount to \$2,408,953.

Under the existing law the minimum capital stock required for the organization of a national bank is \$50,000. In some sections of the country there has been a growing need for bank issues, as well as for other banking accommodations, in small towns in which the amount of \$50,000 can not readily be raised for banking purposes. The inequality in the distribution of national banks is one of the marked features of our national banking system. In the Eastern and Middle States banks are abundant and this alteration in the law would not be availed of to any considerable extent; but in the Western and Southern States there is a dearth of banks in many sections, due, no doubt, to the lack of capital in those sections.

The following statement illustrates the situation:

Statement of banks, bank stock, and bank circulation in the States named.

States.	Number of banks.	Bank stock.	Bank circulation.
Massachusetts	268	\$97,017,500	\$31,511,708
Pennsylvania	412	74,233,129	27,609,870
New York	334	87,139,060	35,623,522
Ohio	248	45,645,338	15,714,986
Illinois	220	38,696,000	7,322,015
Indiana	114	14,372,000	5,521,080
New Jersey	102	14,385,000	4,908,527
Iowa	168	18,510,000	3,865,399
North Carolina	27	2,716,000	830,067
South Carolina	16	1,918,000	540,473
Georgia	29	3,666,000	1,143,504
Florida	19	1,485,000	368,068
Alabama	26	3,585,000	1,206,823
Mississippi	18	755,000	249,532
Louisiana	21	3,735,000	1,849,892
Arkansas	9	1,220,000	279,916

It thus appears that a marked discrepancy exists in the bank circulation and accommodations in the different sections of the country. This inequality may be remedied in part, at least, and the existing need met to some extent in the sections where there is a dearth of bank

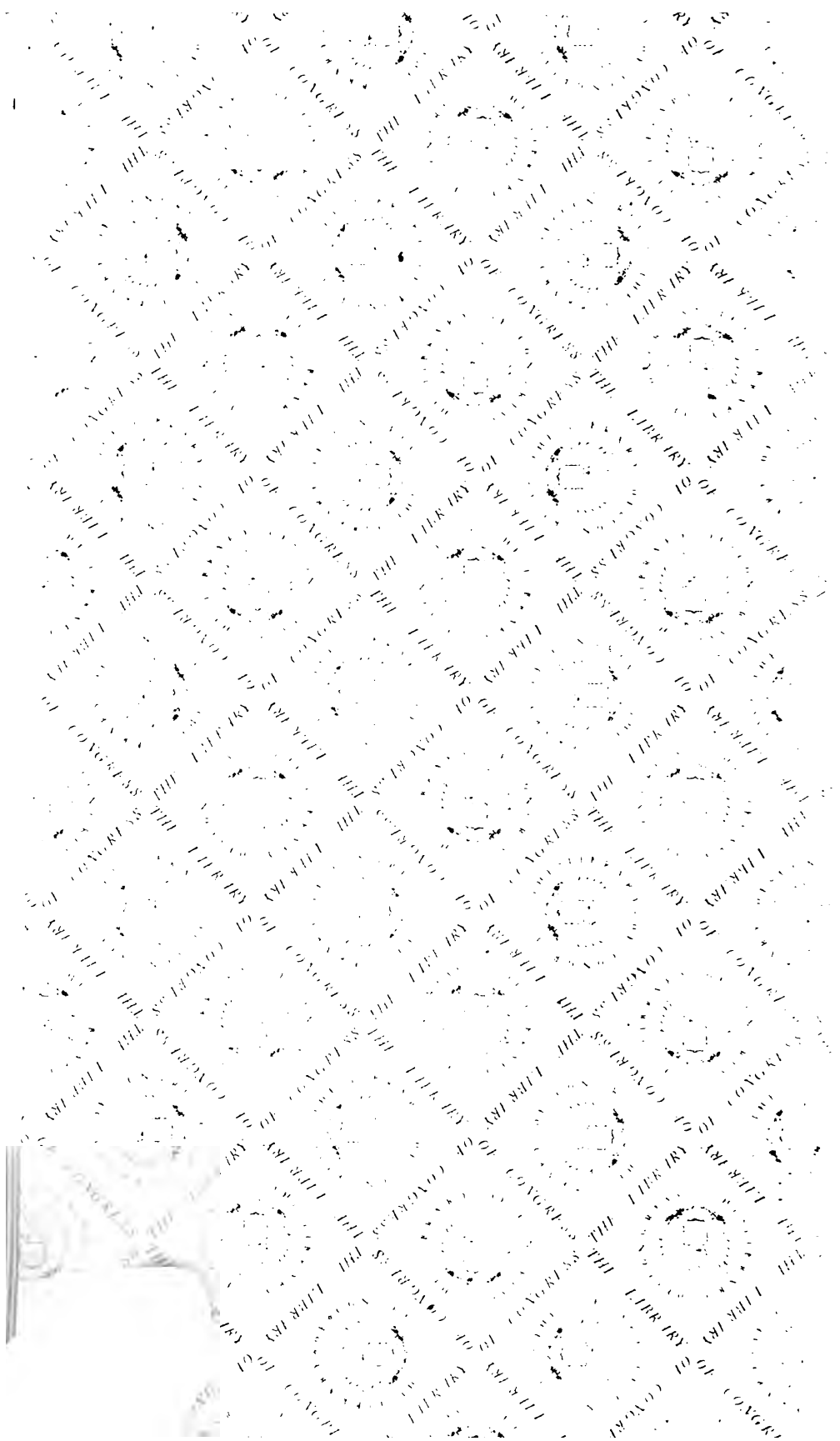
issues and banks are so remote from each other as to afford grossly inadequate accommodations. Relief of this character has been recommended by those best qualified to judge, and meets the approval of the Comptroller of the Currency, who is most familiar with the banking needs of the country.

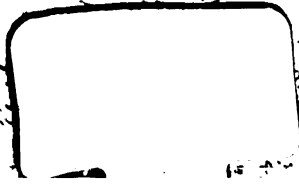
Your committee therefore recommend the passage of the bill, with the following amendment:

In line 12, page 3, strike out the word "two" and insert "three," making it read "three thousand inhabitants."

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